FINAL REPORT TO THE CONGRESS OF SECRETARY OF DEFENSE MELVIN R. LAIRD

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FINAL REPORT TO THE CONGRESS

OF

SECRETARY OF DEFENSE MELVIN R. LAIRD

BEFORE THE HOUSE ARMED SERVICES COMMITTEE

JANUARY 8, 1973

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Mr. Chairman:

It has been my privilege, Chairman Hebert, to serve with you as a Member of Congress for the nine terms to which I was elected to represent the people of the Seventh District of Wisconsin. For the past four years, it has been my privilege to work equally closely with you and the distinguished Members of your Committee in a different capacity, as Secretary of Defense.

Today, at the start of 1973, I am particularly pleased to respond to your request for my personal assessment of the past four years in the Department of Defense, and to present my views on what is needed and necessary for the safety and security of our country in the years ahead.

At the outset, I want to express to all the members of the House and Senate of both political parties my deep appreciation for their understanding and support. Congress, as a co-equal branch of government, can be proud of the non-partisan manner in which it has addressed the problems of national defense.

As I look back over the past four years, it is my strong feeling that no other Secretary of Defense has enjoyed a better relationship with the Congress. For that, I am grateful to all of you. The considerable progress which has been made in the Department of Defense during the past four years would not have been possible without the dedicated work of your Committee, the House Appropriations Committee, the Senate Armed Services Committee, and the Senate Appropriations Committee. I am confident that these Committees will give my suc-

cessor, Secretary-designate Elliot Richardson, the effective advice and support that you have provided to me.

In this report, I will comment on many areas where we have made significant progress -- including particularly the progress we have made toward lasting peace, toward improving our people programs, and toward major procurement reform -- as part of a different concept of Defense management.

Peace and People -- these have always been my main concerns, whether in the Congress or as Secretary of Defense. And one thing is certain, Peace and People will continue to be my first concern in whatever I do in the future.

The progress that has been made with regard to Peace and People has been made possible, on the one hand by the development and implementation of the Nixon Doctrine and the Strategy of Realistic Deterrence, and, on the people side, through the development and implementation of such programs as Human Goals and Participatory Management.

Let me be quick to say, Mr. Chairman, that major problems remain. And I intend to discuss shortcomings which I perceive, and some of the key unfinished tasks which lie ahead. I am, as you understand, Mr. Chairman, not here today to discuss the FY 1974 budget in any detail. That will be done by my successor.

Nor is this report which you requested designed to touch on every aspect of Department of Defense activities during the past four years. This has been done in my annual Defense Reports and in my testimony, and that of others, before your Committee and other Committees of the Congress.

I have, for example, in these reports and testimony discussed at length the specific programs which we have recommended to implement the Strategy of Realistic Deterrence, and some of the new tools -- such as Net Assessment -- which we believe are both needed and necessary.

I have advised you, Mr. Chairman, that I would be pleased to respond to any questions dealing with my stewardship in the Department of Defense.

The progress made in the past four years in revamping the national security structure resulted from three basic factors: the resolute leadership of our Commander-in-Chief, the President of the United States; a willingness to face up to the realities of our times; and the dedicated service of the men and women, civilian and military, of the Department of Defense.

Mr. Chairman, there are no painless answers to the problems of national security. But I am convinced that if we understand fully and implement properly the policies that we have established over the past four years, we can and will continue to provide an effective defense program.

There is a great danger that we will be enticed by euphoria and wishful thinking instead of facing up to realities; that we will look for easy detours around tough paths. If we follow that course, much that the Executive Branch and the Congress have accomplished together since early 1969 will be lost.

You have asked me to focus in specific terms on some of the new directions we have set since January, 1969. I thought it might be helpful at this point to highlight some crucial areas and then discuss them and other important national security matters in more detail later in my report:

Vietnamization and the Nixon Doctrine

Vietnamization -- the first crucial step in implementing the Nixon Doctrine -- today is virtually completed. As a consequence of the success of the military aspects of Vietnamization, the South Vietnamese people today, in my view, are fully capable of providing for their own in-country security against the North Vietnamese. Vietnamization has significantly enhanced the prospects for successful negotiation, but should negotiations fail, Vietnamization makes possible the complete termination of American involvement in the war, contingent always on the safe return of American prisoners-of-war and an accounting for those missing-in-action throughout Indochina.

I have discussed at length in my previous reports to the Congress, in my testimony, and in numerous public statements throughout the country and overseas, my deep commitment to the welfare of our prisoners-of-war, missing-in-action, and their families.

I hope that the negotiations in Paris, resuming today, will be successful and that we can put into effect Operation Egress Recap. I have never particularly liked that name, and in my meetings with POW/MIA families I have been calling the program "Homecoming." I think that "Homecoming" is a better name.

Because of the sensitivity of the negotiations, I will refrain from any further comment on this matter or any other matter which could impact on negotiations.

Strategic Sufficiency

We have a realistic deterrent today at all levels of potential conflict. This is so because Congress and the American people have rejected the views of those who would dangerously slash national security programs.

As an example, we have sufficiency at the strategic nuclear level because Congress agreed with us that the American people may perhaps be willing to accept strategic nuclear parity, but would never accept inferiority. To ignore the strategic reality would be to endanger national security.

Effective Burden-Sharing

In January, 1969, we moved to end the "U.S. cop on the beat" approach, and we replaced it with a concept in which our allies and friends provide more of their own policemen in their own neighborhoods. They are doing so -- some better than others -- but they are moving in the right direction.

Adequate Security Assistance

Since I became Secretary of Defense we have been able to reduce U.S. military personnel worldwide by 1.2 million. In the Pacific, as a result of implementing our new Strategy of Realistic Deterrence, we have reduced the U.S. presence by well over 600,000 men and women. A major reason for this has been the security assistance program, so

necessary as we fulfill our obligations under the four multilateral and four bilateral treaties that have been ratified by the Senate under our Constitutional process. I am compelled to point out that despite our best efforts, we cannot adequately achieve Total Force Planning unless and until security assistance appropriations are included in the Defense Budget. This shift would make possible tradeoffs which would flow from addressing together resources for both U.S. forces and our allies, and would enable the Congress and the American public properly to evaluate and decide on the appropriate level of security assistance. Such a transfer would make it possible for us to comply fully with the provisions of existing law (Section 504b of the Foreign Assistance Act).

Technological Superiority

In competition with the closed society of the Soviet Union, which has continued since the SALT I agreements to move forward with strategic nuclear programs, as its leaders said it would, the United States has in the past four years maintained technological superiority. I believe it was most important to our national security and to the success of SALT I that, with the help of Congress, we proceeded with such necessary elements of technological superiority as TRIDENT, B-1, ABM and SLCM. If the United States ever decides we cannot afford to maintain technological superiority, then we must be willing to accept the status of a second-rate power. And that Mr. Chairman, I do not believe the American people are prepared to accept.

Weapons Modernization

Our smaller post-Vietnam forces, in carrying out the Strategy of Realistic Deterrence, must be equipped with modern and effective weapons systems.

In 1969 the Defense Department and the Congress recognized that we had paid a dear price in foregone opportunities for weapons modernization during the long war in Vietnam. In the past four years we have reversed the trend toward weapons obsolescence. The fiscal reality must be remembered: modernization, whether it involves a new family kitchen or a major weapons program, is expensive.

Revamped Procurement Policies

Major, comprehensive changes have been made in the weapons system acquisition process of the Department. Under the guidance and no-nonsense pragmatic leadership of Dave Packard, my strong right arm as Deputy Secretary of Defense for three years, we replaced such bankrupt practices as total package procurement and an indiscriminate use of concurrency between development and production. Our common sense substitutes included "test before you fly" and "fly before you buy" procedures, more realistic cost-estimating techniques, and the widespread use of contract milestones and prototyping. It will take some years before the improvements in our procurement procedures will be fully validated. But I am confident that time will demonstrate the basic soundness of the new procedures.

Dave Packard, his able successor Ken Rush, and I are in agreement that the Defense Department must not become a bail-out agency for companies that cannot live up to valid and binding contracts.

People Programs

With the cooperation of the Congress, we have ended -- I hope for all time -- an inequitable draft system and the regressive taxation that had been imposed on military men and women who received unfair compensation for their services. Simultaneously, always keeping in mind that the military forces in a democratic society must be disciplined, we have moved forward with a Human Goals Program to ensure equal opportunity and dignity for all our men and women.

I am able today to report further progress toward the attainment of our goal of zero draft by next July and the creation of a high quality All-Volunteer Force, providing of course that Congress acts quickly to pass the essential Special Incentive Pay legislation we have proposed.

Mr. Chairman, I have advised the Selective Service that there will be no draft calls in February, just as there were none in January. I now estimate that in March, fewer than 2,500 men will be drafted, and for the next quarter which ends on July 1, no more than an average of 1,000 men per month will be needed. This means a total draft call of about 5,000 for calendar year 1973, compared with the 300,000 men drafted in the year before I became Secretary of Defense.

As to manpower costs, it is possible now to forecast that this portion of the Defense budget, which percentage-wise has been rising for many years, has now been stabilized. The FY 1973 budget showed some 56% devoted to manpower and related costs. The forthcoming budget should reflect about the same percentage.

Strong Guard and Reserve

We have begun to restore our Guard and Reserve forces to first-class status, and have made it clear that in the event of a future emergency, the Guard and Reserve -- not the draft -- would be used first. I am concerned that this new status for the Guard and Reserve will be undermined unless the Senate promptly passes legislation we have requested to provide increased incentives for the men and women of our Reserve forces. The alternative to this legislation clearly is a willingness by Congress to grant induction authority under the Selective Service System to provide men and women for Reserve forces duty.

Improved Operational Readiness

Across the board -- from training, manning, equipping to maintaining our forces -- we have sought to improve operational readiness, including actions taken to revamp intelligence and command and control activities. I believe that early appointment of a second Deputy Secretary of Defense is essential to further enhance operational readiness and more effective civilian control.

Total Force Planning

The years when the United States had a built-in margin of security because of its preponderance of power, prestige and an overwhelmingly dominant economy are gone. We must, therefore, integrate better than ever before all the resources that can be brought to bear in effective national security planning. This requires effective diplomacy, better use of military and non-military resources as integrated instruments

of national security, and better use of resources throughout the Department of Defense.

As we look beyond Vietnam, effective progress in this area clearly will demand some changes in past roles and missions, a dedicated effort to overcome remaining parochialism, and a renewed commitment to the one basic objective of effective national security. You may rest assured, Mr. Chairman, that I have already discussed, and will again at great length discuss with my successor a number of changes which will be possible and in my view highly desirable during the coming months and years -- for example, assignment of Air Force tactical squadrons to Navy carriers. I recognize, as do you and your colleagues, Mr. Chairman, that what we are talking about here undoubtedly will lead to some controversy, but constructive controversy must not be avoided if we are to have effective Total Force Planning.

Participatory Management

In the past four years, we have developed and put into effect a philosophy of participatory management. This has replaced the strong trend toward ever greater centralization in the Department, and has led to greater responsibility and greater accountability within the Services and Defense Agencies.

The National Security Act is correct in placing full and total decision-making responsibility directly in the hands of the Secretary of Defense. He cannot and should not evade that responsibility. But a Secretary of Defense must seek -- and certainly this Secretary of

Defense has sought -- to involve civilian and military people throughout the Department at all echelons in the management process.

Aside from all other benefits that accrue from our participatory management philosophy, I believe it adds pride, dignity and greater effectiveness to those civilian and military men and women who serve their country in the Department of Defense.

Mr. Chairman, these are a dozen of the major program or strategy changes we have brought about in the Department of Defense during my service as Secretary. It is by no means an exhaustive list. Rather, it is a representative sample of the new approaches we have tried to institute during the past four years.

I would now like to turn briefly to a capsule description of what we found as we assumed office in January 1969, and then discuss several of these major areas in more detail. I will also attempt to highlight some of the major problems that remain.

I. THE 1969 PERSPECTIVE

When I became Secretary of Defense in 1969 we were faced with a host of problems, both at home and abroad. Underlying practically all of these problems was a basic issue which had to be resolved -- the question of confidence and credibility in our Defense establishment. We immediately undertook to restore credibility by bringing the facts to the Congress and the American people, and by opening the dialogue so necessary to an adequate understanding of the complex problems of national security. I believe we have made major progress in this area, but we have yet to achieve a full public understanding

of the differences between the myths and the realities of national security.

A. Vietnam

The first major task before us was Vietnam -- a war with no end in sight. That war has occupied more of my attention than any other single concern during the past four years, and rightly so. We have, since 1969, succeeded in shifting the focus of public debate from the previous question of "Why Vietnam" to "Why Vietnamization." This shift was important, particularly during my first three years, because it concentrated our attention on the future and what was to be done to terminate U.S. involvement, rather than on the past and "what might have been." As Vietnamization moved successfully forward, we were able to shift our emphasis to long-range national security needs beyond Vietnam.

Vietnamization was the first crucial step in implementing the Nixon Doctrine and its supporting Strategy of Realistic Deterrence. The immediate and urgent purpose of Vietnamization was to terminate American involvement in the war while seeking an honorable end to that war through negotiation.

Vietnamization also underscored our expectation that the responsibilities of defense must increasingly be shouldered by the South Vietnamese themselves.

B. Other Challenges

The issue of Vietnam overshadowed other challenges we faced in 1969, but did not change their reality. Those challenges included:

-- A changed and changing world of new complexities symbolized by the end of a bi-polar structure.

-- Growing public concern with the high cost of national security and the increasing desire to "reorder national priorities."

-- Ongoing and accelerating inflation.

-- Severe manpower problems, including a grossly inequitable selective service system.

-- Intolerable conditions under which many of our military and defense civilian population worked and lived.

-- Procurement policies which were leading to major cost growth and force obsolescence.

-- Degraded force readiness, largely as a result of Vietnam.

-- A highly centralized management approach which was not coping effectively with these and other problems.

In highly abbreviated form, this represents the environment that existed in 1969, an environment that was dominated by what I later described as four major realities, which had to be understood and dealt with in the national security arena. Those realities, of course, are:

The strategic reality of growing Soviet momentum across the broad spectrum of military strength taking them from a position of

clear inferiority in the early 1960's to virtual strategic nuclear parity today.

The fiscal reality involving not only the heavy pressure in Congress for reduced defense spending, but the upward pressures of inflation on the cost of everything we need to maintain adequate military forces.

The manpower reality, reflecting little understood people costs. People constitute the single biggest cost in the defense budget. It cost us in FY 1973 some $20 billion more than it did in 1964 for some 133,000 fewer people.

The political reality, complicating severely the other three realities from the standpoint of:

-- the political and psychological effects of Soviet policy and growing presence around the world, such as in the Mediterranean and the Middle East;

-- pressures from our allies to maintain forward deployed United States forces;

-- Congressional pressures to reduce those forces; or

-- gaining broad political support here at home for doing all the things we have to do to assure our national security interests while continuing to reorder our national priorities.

When the Nixon Administration assumed office in January 1969, it was clear that our complex national security problems demanded a basic rethinking of existing policies in the light of changing world

and domestic conditions. It was clear that new directions were needed. In my Defense Reports to the Congress, I have discussed in much greater detail, the problems we found and the steps we instituted to cope with them. Here, I can only summarize the broad directions we established to make the transition to a lasting peace.

II. ESTABLISHING THE BROAD DIRECTIONS

From a national security standpoint the past four years have been years of transition:

-- From war toward peace.

-- From a wartime economy to a peacetime economy.

-- From a draft dominated force toward an All-Volunteer Force.

-- From a federal budget dominated by defense expenditures to one dominated by human resource programs.

-- From an era of confrontation to an era of negotiation.

-- From arms competition toward arms limitation.

They have also been years of transition with respect to the basic approach to defense planning and management. We have instituted a team effort to seek solutions to problems, rather than having those solutions dictated through a highly structured and centralized decision-making process.

We have not solved all of the problems that were before us in 1969, but both the broad directions which we have set and the implementing programs which we have established can, if pursued, provide an effective approach to national security planning for the years ahead. Vietnamization was the starting point and first crucial step.

Underlying Vietnamization is a whole new approach to national security planning embodied in the Nixon Doctrine and the Strategy of Realistic Deterrence.

Over the past four years, United States policy has combined an unaltering constancy of purpose with sweeping and far-reaching changes in methods. The objectives were and are a lasting peace and an improved quality of life for all Americans.

A striking example of our determination to combine our pursuit of lasting peace with our efforts to improve the quality of life was the decisive action taken by the National Security Council and approved by the President on my recommendation that the United States should renounce any use of biological and toxin weapons and renounce first use of lethal and incapacitating chemical weapons. I count as a major achievement of my service as Secretary of Defense that such facilities as Fort Detrick, Maryland and Pine Bluff, Arkansas have been transferred from the primary task of chemical and/or biological efforts for military deterrent purposes to research activities for peaceful medical purposes.

A. The Strategy of Realistic Deterrence

Our National Security Strategy of Realistic Deterrence, which is designed to support the President's Strategy for Peace, has also been characterized by continuity in purpose and innovation in means.

This strategy was developed by the Department of Defense to implement the national security aspects of President Nixon's Strategy for Peace. The three elements of the President's strategy are adequate strength, true partnership, and a willingness to negotiate.

The aim of the Nixon Doctrine and its implementing Strategy of Realistic Deterrence is to help develop an international framework -- a "structure for peace" -- in which free nations support each other against common threats according to their proportionate capabilities, while each bears the major manpower burden for its own defense. The Nixon Doctrine and the Strategy of Realistic Deterrence seek world stability through a more equitable sharing of the responsibilities for deterrence with our allies.

We must always keep in mind, Mr. Chairman, that peace cannot be maintained if United States military power is unilaterally reduced, or if it needs to be applied as the sole deterrent to foreign aggression.

Diplomatic, political and economic interaction also contribute directly to deterrence. They provide communication with allies as well as potential enemies, and they give purpose to the activities of our friends. In short, our strategy emphasizes that peace is everyone's business.

In presenting the Strategy of Realistic Deterrence to Congress two years ago, we announced that its implementation in peacetime would require no more than 7% of the Gross National Product and an active duty military establishment consisting of no more than 2.5 million men and women volunteers. We not only met this objective last year; we beat it. Our current force levels are approximately 2.3 million military men and women and our budget utilizes only 6.4% of the Gross National Product.

B. The Impact of Change

Over the past several years major changes have occurred which we have helped to bring about, and which affect our defense planning. Among the most important are the following:

1. Vietnamization

When the Nixon Administration took office in January 1969:

-- Authorized United States military strength in Vietnam was 549,500.

-- There was no approved plan to bring American troops home.

-- There was no plan to terminate United States involvement in the war except through success at the Paris negotiating table.

We changed all that.

In March, 1969, I went to Vietnam to meet with General Creighton W. Abrams and his commanders to discuss the concept of Vietnamization; a concept which would have us turn over to the South Vietnamese full responsibilities for their own in-country security. That was the beginning.

Last week I returned to the Pacific for a farewell visit to Army, Navy, Air Force and Marine Corps troops of the Pacific Command. At a meeting with them at the Pearl Harbor Enlisted Club, I was able to give them my complete and total assurance that the military aspects of the Vietnamization Program have worked and that the South Vietnamese now have the capability to provide their own in-country security

completely and totally. This accomplishment has been made possible because of the work of the South Vietnamese themselves, and because of the outstanding implementation of this program by our own military and civilian defense team. I would be remiss if I did not point out the major role played in this success by the Army's new Chief of Staff, General Abrams, who had the support of the entire Joint Chiefs of Staff led by its Chairman, Admiral Thomas H. Moorer.

As this Committee knows full well, because it has been involved every step of the way, our Vietnamization program has allowed us to reduce the size of our fleet in the Tonkin Gulf, the size of our deployments in Thailand, and to bring home from Vietnam some 520,000 Americans.

From a military standpoint, the Vietnamization program has been completed. Some American military personnel remain in Vietnam, in keeping with the Commander-in-Chief's pledge that all our forces will not be withdrawn until all prisoners have been released and our missing-in-action accounted for.

But, Mr. Chairman, I want this Committee to understand that the continuing United States military presence in South Vietnam is not being maintained because of a lack of capability on the part of the South Vietnamese. Our Vietnamization program has given them the capability of maintaining their own in-country security.

Vietnamization has changed the circumstances we found four years ago. It has enabled us to bring our military forces out of Vietnam, while leaving the South Vietnamese with the capability for

their in-country security. This is the most any ally could reasonably expect, for no nation can provide to another the will and determination to survive. Because of the success of Vietnamization, we can now focus our attention on shaping our military posture to fulfill its primary task of deterrence.

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2. All-Volunteer Force

When I became Secretary of Defense, I understood why there had been considerable restlessness among many of our young people, particularly on the campuses. They had experienced an ever-increasing build-up of United States strength in Vietnam, made possible by an inequitable draft system. We began working immediately to reduce American military deployments in Vietnam, to eliminate inequities in the draft, and then to eliminate the draft itself.

Our manpower levels have now been reduced to baseline strengths, and our direct reliance on the draft is scheduled to end by July 1, 1973. This has been made possible through the cooperation of Congress in providing the pay and other tools necessary for an All-Volunteer Force. I remain convinced that with continued Congressional support for necessary legislation we will meet our goal of an All-Volunteer Force.

The withdrawal of all 11 United States divisions from Vietnam, the successful reform of the draft through random selection and elimination of discriminatory deferments, and our drastically reduced reliance on the draft as we move toward an All-Volunteer Force have in my judgment combined to reduce significantly the tensions among our young people and on our campuses. These changes have made

possible an environment of volunteerism, by which thousands of our young people may now turn their talents and energies to constructive participation in our society.

3. Arms Limitations Negotiations and Agreements

The historic ABM Treaty and Interim Agreement on Strategic Offensive Arms concluded in Moscow last May are the first steps toward mutually agreed restraint and arms limitation between the nuclear superpowers. Through them the United States and the USSR have enhanced strategic stability, reduced world tensions, precluded a significant upturn in the strategic arms race in the near term, and laid the foundation for the follow-on negotiations which began last November. In terms of United States strategic objectives, SALT I improved our deterrent posture, braked the rapid build-up of Soviet strategic forces, and permitted us to continue those programs that are essential to maintaining the sufficiency of our long-term strategic nuclear deterrent.

The basic philosophy which underlies our approach to SALT is in keeping with our emphasis on negotiations -- an attempt to seek sufficiency through mutual agreement and restraint rather than through unbounded competition. The agreements reached at SALT I are only one small step down the path of effective negotiations to limit armaments. We have many complex questions left to address in SALT II, and problems at least as complex and probably more complex in areas such as Mutual and Balanced Force Reductions in Europe. But SALT I does mark a milestone, for we have agreed upon concrete measures to limit armaments as a part of our basic strategy for peace. But we must stay this long

and difficult course and not lose sight of the fact that successful negotiations were made possible by another element of our strategy for peace -- adequate strength. We must continue to approach negotiations from a position of strength -- so that the President does not have to crawl to the bargaining table.

I recognized that it was not going to win me any popularity contests when I advised the Congress that I could not support the SALT Interim Agreement on offensive strategic weapons without Congressional approval of the important strategic programs that the President had recommended to the Congress last January. These strategic safeguards included, notably, the TRIDENT Submarine Program, the B-1 Bomber Program, and other key Research and Development Programs such as work on a submarine launched cruise missile.

It was not popular, either, for the Department of Defense to advocate approval of the ABM system and deployment of the MIRV multiple warhead programs in 1969 and 1970, but it is my strong conviction that without those two programs, endorsed by the Congress, there never would have been SALT I, and certainly no SALT II.

4. New Political and Economic Relationships.

After an era of confrontation and a generation of hostility, a new page has been turned in our relations with the Soviet Union and the People's Republic of China. These developments offer both opportunities and challenges. On the one hand, President Nixon's initiatives in exploiting the potential for improved relations with our adversaries have already resulted in significant advances toward building a global

structure of peace. On the other hand, we and our allies must not allow the mere hope of continued reductions in tensions to interfere with our efforts to maintain the strength and will that are essential to deter conflict and support negotiations. Our security planning must, therefore, achieve a level of Free World strength that discourages aggression at all levels of conflict.

Accompanying these political developments have been developments in the economic field. Both the Soviet Union and the People's Republic of China have come to recognize that even communist economies cannot function effectively if they are isolated from developing patterns of world trade and investment. Therefore, they -- and other communist countries -- have sought to broaden their economic contacts and to tap the technology and financial resources of the capitalist world.

I continue to believe that one of the most important foreign policy tools at the disposal of the United States under our Total Force Concept is trade.

Those who wish to reap the economic benefits of trade with the American people must understand that our trade policies cannot ignore the imperatives of our own national security, and of world stability and order. This "trade reality" must clearly be understood not only by those who would trade with us, but also by all in both the Executive and Legislative Branches who participate in the formulation and execution of United States trade policies.

There is another side to the trade coin. Our allies, particularly those which have developed strong and thriving economies through easy access to American markets, while enjoying the luxury of a nuclear defense shield financed solely by the American taxpayer, must be brought to the realization that they, too, have responsibilities and burdens to bear for their own and free world security and prosperity. They must also come to understand -- and here the Congress must play a part -- the fiscal unreality of continuing United States Balance of Payments deficits. There must be mutuality in both trade and security, for these ultimately are inseparable.

My comments today will come as no surprise to our allies, for I have always shown them the respect of speaking candidly and of sharing with them my view of the realities we share in common in seeking world peace and an improved quality of life.

5. Technological Advances

While I was still a member of Congress I became most concerned at our growing neglect -- resulting in a major part from ever-increasing requirements of the Vietnam War -- of our technological base. When I became Secretary of Defense, that concern sharply increased. I found that our ability to cope with the emerging Soviet momentum in the field of strategic nuclear weapons, as well as other areas of military power, was severely constrained by the lack of an adequate technological base.

I immediately directed the reordering of priorities within the Defense budget in order to stress the maintenance of our technological

superiority. We have managed in large measure to reverse earlier trends toward an inadequate research and development effort. The United States should have done more, and I am sure you are aware that our requests for research and development to the Congress were far more than Congress saw fit to give us.

During the past four years new technologies have emerged which have influenced our decisions in shaping the forces for deterrence. These advances are the result of costly research and development efforts that have spanned many years and overcome numerous uncertainties. Our research and development program has too often been the target of large budget cuts, since the direct payoff is not easily seen. Yet this is precisely the reason it is important. A strong technology base and vigorous technological initiatives are keys to the maintenance of our future strength. They will enable us not only to develop new systems, but also to cope with new threats and to avoid the risks inherent in technological surprise.

C. Net Assessment and the Threat

As we have sought to adapt to change, so have we concentrated on injecting reality into all phases of planning.

Our recognition of the realities was a major motivating factor in development at the Pentagon of the new approaches of Net Assessment and Total Force Planning. Net Assessment and Total Force Planning address the four major realities which have shaped the strategy of Realistic Deterrence.

My successor, Secretary-designate Elliot Richardson, will present a detailed discussion of the military threat in his presentations later this year on the FY 1974 Budget. Admiral Moorer, of course, will go into more comprehensive detail in his military posture presentation to Congress. In this Report, Mr. Chairman, I shall simply highlight for you some of the more significant developments that have occurred since my last Report in February of 1972:

Soviet Union

-- A new version of the MINUTEMAN-size SS-11 ICBM has been tested repeatedly and appears ready for deployment. This new missile is more accurate than the earlier versions of the SS-11 and will probably be deployed with a MRV capability.

-- A new, SS-9 type, large, liquid fueled ICBM is being tested.

-- Construction of approximately 100 new ICBM silos continues. Some 60 of these are small silos capable of launching SS-11 size missiles and could be completed in a matter of months. The larger silos can handle SS-9 size missiles and may be destined to hold the new large missile.

-- The Soviet SLBM force has been methodically upgraded. The SS-N-8 missile, which has a range of some 4000 nautical miles, is expected to become operational in the next few months.

-- The platform for the SS-N-8 appears to be a 12-tube modification of the YANKEE-class submarine. The first of these units which we call the DELTA-class is undergoing sea trials and will soon be operational. The Soviet ballistic missile submarine force -- YANKEE and DELTA-class -- now totals about 45 operational and under construction.

-- The Soviets have continued test flying BACKFIRE, their new supersonic swing-wing bomber, which may now be in series production. I expect a significant number of these bombers to be assigned to strategic and naval air units.

-- The Soviets have continued to develop their GALOSH ABM system around Moscow, adding new radars and other facilities at two more complexes.

-- A follow-on ABM system is under development.

-- Developments in Soviet tactical aviation have included introduction of the variable geometry wing FLOGGER and FITTER B.

-- Soviet naval capability has expanded at a rapid rate. Ongoing construction programs include nuclear-powered torpedo attack and cruise-missile submarines, cruisers, destroyers and their first aircraft carrier. We expect STOL or VTOL aircraft to be deployed on this carrier's flight deck.

-- The capability of Soviet land forces has been increased by the production of two new tanks and improved conventional artillery shells, bombs and missile and rocket warheads.

Peoples Republic of China

-- The remarkable growth of the PRC's nuclear strike capability in both missiles and bombers has been maintained during 1972. The Chinese are moving forward rapidly with their program to deploy liquid-fueled MR/IRBM missiles and to develop an ICBM.

-- Significant developments also have been noted in the PRC's submarine and aircraft production programs. The Chinese have overcome numerous obstacles in designing and producing their own systems, and their successes are evident in their development of attack submarines, and in their F-9 fighter-bomber.

III. STRATEGY IN ACTION

A. The International Scene

Over the past four years the Department of Defense has had no more important goal than to develop and implement the defense dimension of the Nixon Doctrine.

For 25 years after World War II our international role was shaped by the belief that the responsibility for world peace, stability, and prosperity rested largely, if not solely, on our shoulders alone. But what was true for the years immediately after that war progressively became less so as the decades of the 50s and 60s wore on. Increasingly, the objective conditions -- domestic and international -- which once warranted such a role were changing -- and that change called for a new role for the United States in international affairs.

1. The Nixon Doctrine, Burden Sharing, and Security Assistance

The Nixon Doctrine is a statement of that new role. The Strategy of Realistic Deterrence provides the Defense tools to implement that role. The Nixon Doctrine defines a new partnership -- a new more realistic disposition of roles and responsibilities -- between us and other nations in the building of the common peace and prosperity.

I believe we can sum up its broader meaning in three statements:

First, America must play a major role in world affairs. Our security and well-being demand it. Our sheer weight in the international scheme of things makes it unavoidable. To withdraw into a modern-day variant of isolationism is a recipe for disaster -- for us and for the world. Our objective -- and our responsibility -- must be to work with other nations to build a stable and peaceful international order.

Second, we cannot and should not do everything ourselves. As President Nixon has said, "no nation has the wisdom, and the understanding, and the energy required to act wisely on all problems, at all times, in every part of the world."

Moreover, the American people have come to believe that we must place realistic limits on our world role in light of our own interests and our growing domestic needs. And it is a cardinal rule that, in the long run, no democracy can pursue and sustain international policies which its citizens do not support.

Third, other nations must assume greater responsibility than they have in the past in providing for security and economic development, and in building a peaceful and prosperous world order. The post-war economic and political recovery of Europe and Japan has long been an accomplished fact. Further, many of the newer nations already have demonstrated that they have the resilience and the resources required to assume a greater share of the burden for their own security and well-being.

But, important as it may be that others are capable of doing more than they have done, I would suggest that there is an even more substantive reason for asking a greater degree of burden-sharing from them. For unless a nation feels itself primarily responsible for its own security and well-being, it will leave the task to others, and fail to marshal its resources and political will in its own defense.

Apart from what a nation does for itself, there is the larger question of its responsibility for maintaining the peace. International order can be stable only if nations have a stake in its maintenance. Nations will not have such a stake unless they have participated in building that order.

These principles -- these broad directions -- have guided our efforts in establishing the National Security Strategy of Realistic Deterrence designed to support and fulfill the Nixon Doctrine.

In developing this national security strategy we have sought to provide answers to these basic questions:

-- What should be the relative responsibilities of the United States and its allies for deterring threats to the common security?

-- What resources can and should each nation concerned contribute to the common defense?

-- How can we make optimum use of all available military and related resources to meet the requirements of the common security?

The answers we have given to these questions, and the actions we have taken to implement them, delineate what has been accomplished over the past four years and what remains to be done in the years ahead.

First, deterrence of nuclear threats, both to the U.S. and its allies, has been and will continue to be for the foreseeable future primarily the responsibility of the U.S. No other nation can contribute strategic nuclear power on the scale that is required to provide a sufficient deterrent against nuclear threats or blackmail from other nuclear powers. Without a continued U.S. nuclear contribution to the common security, our allies and friends would have neither the will nor the reason to do what can and must be done to deter lesser threats.

But if U.S. nuclear power is essential to the common security, it is not sufficient to deter the full spectrum of potential

conflict and threats to U.S. and allied interests. And it is in considering relative U.S. and allied responsibilities and resources in deterring those conflicts and threats that the new Nixon Doctrine concept of partnership and the Total Force Concept of our implementing strategy come into full play.

2. Regional Considerations

In Asia, we face jointly with our allies the problem of how to deter major theater conventional or possibly nuclear threats involving the U.S. in direct conflict with the PRC or the Soviet Union, and sub-theater or localized conventional threats which do not involve the PRC.

Our starting point is the principle that the nation directly threatened by sub-theater or localized aggression should assume primary responsibility for deterring this threat and for providing the manpower necessary to defend itself if aggression occurs. Thus, in the case of aggression by North Korea against South Korea, without the direct involvement of the PRC, we would look to the South Koreans to provide the first line defense of their own country. Similarly in the case of aggression in Southeast Asia, by North Vietnam against any of its neighbors, we would look to the country directly attacked to bear the principal burden for its own defense. This has been the principle we have been following in Vietnamization. I believe that all of the allies and friends concerned are ready to assume this primary responsibility for their own defense

and commit to it a heavy share of their resources. But these resources are limited and they cannot make effective use of them without security assistance from the U.S.

For example, I believe that if we fully implement the plans for security assistance for South Korea that we have presented to the Congress, we will provide an effective South Korean deterrent to North Korean aggression -- a deterrent that does not rely on American ground combat power. In Vietnam, Vietnamization has been a systematic effort to help the South Vietnamese to develop the capability and assume the responsibility for their own defense against the North. South Vietnam's performance since American responsibility for ground combat was completely terminated at the end of last year has demonstrated that we can build local capability for deterrence without reliance on American infantry.

Building an allied capability and responsibility to deter some sub-theater localized threats to their security does, of course, at the same time enhance the allied contribution to deterring theater conventional threats. Over time our allies should be able to provide an increasingly important component to the deterrent to such threats, particularly if they can develop the potential for regional cooperation which exists in the area. If these nations in fact are to play a role and make a contribution to their own security and that of the region commensurate with their own interests and responsibilities, then they must look to new forms of regional defense cooperation and arrangements. They must increasingly see the need for mutual support and sharing of

defense burdens in the face of what they must recognize as a common challenge to the security of all. There are intra-regional differences which may make this a difficult enterprise.

But the countries concerned must realize that over the longer haul the U.S. cannot and will not permit its own efforts and contribution to be taken as a substitute for -- or, indeed, an escape from -- the responsibility to overcome these regional differences. The U.S. will, of course, continue to fulfill its share of the responsibility for deterring theater conventional threats in Asia. But U.S. defense plans and policies -- its security assistance programs, deployments and attitude towards regional cooperation -- will all be affected by the degree of effort put forth by the allies concerned.

Many problems have been associated with past approaches to security assistance and our own force planning, particularly as related to Southeast Asia. For example, we must fund and manage three programs directly associated with one conflict -- our own forces, our service-funded military assistance in Vietnam, Laos and, up until last year, Thailand, and separately funded assistance for Cambodia.

When United States military power was pre-eminent, and when we in fact planned and acted like the world's policeman, we could perhaps afford the luxury of fragmenting overall free world security planning, doing our own force planning essentially as a separate entity. In my view, the changed world situation demands that we revise our procedures and focus more and more on Total Force Planning.

We are seeking to develop new procedures in the Department of Defense to implement this approach. But implementing new procedures is not easy, particularly when an ingrained "do it yourself" philosophy remains from the past. By incorporating security assistance into our defense budget, we would underscore for friends and potential opponents alike our intentions and our seriousness in implementing effective partnership.

I know that some take the position that a preponderance of the military assistance program does not lend itself to meaningful tradeoffs between security assistance programs and the size and structure of U.S. forces. Thus far, studies have identified many countries for which security assistance programs can be related directly to U.S. force requirements. Therefore, I firmly believe that security assistance programs should be structured into the Defense Authorization and Appropriation bills. Then we could proceed with more effective security planning, develop better total force tradeoffs, and bring our procedures in line with our policy.

Further, such actions would go a long way towards compliance with Section 504(b) of the Foreign Assistance Act, which provides that:

> "In order to make sure that a dollar spent on military assistance to foreign countries is as necessary as a dollar spent for the United States military establishment, the President shall establish procedures for programming and budgeting so that programs of military assistance come into direct competition for financial support with other activities and programs of the Department of Defense."

In Europe, the context in which we seek to implement the Nixon Doctrine is significantly different. Our European Allies can and must do more to deter the Soviet threat to their security. They do not lack the resources. They do not lack the expertise and technology. All that they require is recognition of the strategic and political realities that face us all, and the will to act to meet them.

A sufficient nuclear deterrent will continue to be the keystone of the structure of Allied security. At the same time, the advent of strategic nuclear equivalency between the U.S. and USSR places added weight on the need for adequate conventional capabilities to counter conventional threats at the level at which they might occur.

The U.S. will continue to have the primary responsibility for maintaining the Allied nuclear deterrent. And the U.S. will continue to make a substantial contribution to the Allied conventional deterrent. But the U.S. cannot be expected to bear the full burden of nuclear defense and at the same time an undue share of the burden of conventional defense. That is neither equitable nor politic. And it is inconsistent with the Nixon Doctrine's concept of new partnership.

Over the past four years, many members of the U.S. Congress have questioned the existing distribution of responsibility between the U.S. and the Allies for the defense of Europe. The basic point, in my view has not been "why does the U.S. do so much," rather, it has been "Why do the Europeans not do more in what is, first of all, their own defense?"

In my twice yearly meetings with my NATO colleagues, I have repeatedly made the same point. They have responded with programs of force improvements in the Eurogroup context which do represent a significant step forward. But more -- much more-- must be done if we are to realize the full potential of the investment in conventional defense we have already made.

There is, of course, a tendency on the part of some -- on both sides of the Atlantic -- to see in the new era of negotiations a reason or excuse to reduce defense efforts. Yet it must be apparent to all that Western military strength helped bring this new era about by effectively closing all paths except that of negotiations. And it must be equally apparent that western positions and interests cannot be adequately protected and advanced in negotiations unless the West shows continued will and ability to maintain its military strength.

When I became Secretary of Defense in 1969, it was clear that we needed to re-examine our collective NATO strategy to see if it was still viable in the light of new circumstances and new realities. We knew there were weaknesses and imbalances in NATO's conventional capabilities vis-a-vis those of the Warsaw Pact. The status of United States forces in Europe had, before 1969, been degraded by the requirements of our expanded troop commitment to Southeast Asia. It was also important to clear away some of the misunderstandings between the U.S. and its allies which had arisen over the years, and to work together to restore the cohesion of the great Alliance.

Together with our Allies we carried out in NATO an exhaustive study of Alliance Defense Problems for the Seventies, in which we reaffirmed the validity of our current military strategy and agreed on ways in which to improve NATO forces, their armaments, logistics, supporting infrastructure, and our ability to consult on their possible use in a crisis.

President Nixon has emphatically reaffirmed the American commitment to NATO. He said that given a similar approach by our allies, the US would maintain and improve its forces deployed in the European area. We have kept that pledge.

On the European side, we all can be justifiably proud of the European Defense Improvement Program (EDIP), with its commitment to national force modernization programs, its payment for aircraft shelters for NATO tactical aircraft in Europe, and its program of mutual aid.

Progress in NATO armaments has been slow, although marked by some forward movement, particularly in the fields of armor and anti-armor and naval modernization. But the overall process, to speak frankly, has been inefficient and duplicatory because of national attempts to maintain a wide range of similar defense industries. The result is not only economically wasteful but militarily undesirable, since it works against standardization and interoperability. We have been trying to counter this trend by encouraging greater cooperation and rationalization among Free World European nations. We are offering our latest designs to the other NATO nations and are testing their

designs for possible adoption by our forces. Certainly the Alliance nations will each have to give a little in the common interest if we are to realize the substantial savings that real cooperation can bring us.

Allied cooperation in logistics also leaves much to be desired; however, we hope that a series of conferences of national logisticians, recently inaugurated, may break new ground in this field. This again is an area in which substantial savings can be expected if national attitudes permit.

Infrastructure, which is the NATO program for construction of the necessary fixed facilities for NATO forces, continues to be one of the outstanding successes of NATO's collective activity, although it has suffered from inadequate funding. While at present the infrastructure program of providing shelters for NATO tactical aircraft is being supported by the Eurogroup in its EDIP activity, NATO infrastructure faces sizable problems of restoration and adaptation of original facilities as well as construction of new facilities required by the demands of today's defense. Ministers have agreed on the continuation of the infrastructure program for an additional five years; the United States will soon be negotiating in the Alliance on the size of the program and the appropriate US share. On this last point, for the past several years our record of drawing support for our forces from the NATO infrastructure program has been good.

NATO communications for political consultation and command and control are generally inadequate when considered against the pos-

sible requirements of modern warfare. However, in the past year and a half, NATO has drawn up and agreed upon a plan for a NATO Improved Communications System (NICS), has made funds available for the first phase of the program, and has set up the necessary management agency to direct the development of the system. Some improvements in NATO's communications are already in evidence; as the NICS program continues, we expect major improvements.

In the field of crisis management, NATO has substantially improved the capability of its principal headquarters facilities in Brussels and is developing and testing possible crisis procedures, so that if an emergency arises, NATO nations can consult fully and take the appropriate steps promptly. During the past four years, our NATO allies have increased the readiness and training of their forces through participation and cooperation in allied exercises. Of particular recent significance have been the large-scale exercise "Strong Express" involving 64,000 men, 300 ships, and 700 aircraft conducted in September 1972 and the participation of NATO's Standing Naval Force Atlantic in an allied exercise in the Mediterranean in May 1972.

There is potential however, for greater progress in the exercise field, particularly in the maritime area. Our allies possess important naval assets whose capabilities are not fully realized because the ships spend so much of their time in port. If certain allies operated those ships more often, their training, readiness, and ability to work together with other allied naval forces would be greatly

enhanced. This could also lead to the creation of an Allied Standing Naval Force in the Mediterranean, as a counterpart to the Atlantic force which has been so successful.

In the field of planning, we are pleased with the accomplishments of the NATO Nuclear Planning Group, a forum for frank discussion of sensitive Alliance nuclear problems. I remain convinced of the continuing importance of promoting allied understanding of and planning for NATO's nuclear defense.

Looking to the future, we will need to make much more effective use of available resources, whether it be manpower, technology, doctrine, or deployments. This is what we are attempting to do under the Total Force Planning concept. NATO, too, must take all potential defense assets, including civil resources, into account and ensure that there is full coordination in their use.

We need additional cooperative measures among the allies in such areas as:

-- the organization, command and control of our NATO Air Forces in the center region;

-- better use of manpower, both active and reserve;

-- research and development to achieve truly effective armaments cooperation.

We have, during the past four years, kept the President's pledge to maintain and improve United States forces in Europe. But, in the years immediately ahead it will be almost impossible to support an undiminished American troop presence in Europe if some

of our partners whittle down the effectiveness of their own forces -- whether by budget reductions, manpower reductions, or shorter terms of service.

At our most recent NATO Defense Ministers' meeting in December, 1972, I based my major intervention on burden sharing and the need for more of it. Beyond my admonition that defense expenditures must grow in real terms and that funds must be used more efficiently in support of our common defense, I called for continued European Defense Improvement Program effort, a new category of NATO Infrastructure to support troops stationed outside of their own territory, and a decreased United States cost share of NATO's Infrastructure program. I know that these suggestions will be difficult to realize but I believe that the time is ripe and that our Allies fully understand the need to relieve us of some of the burden.

The era of negotiations is well upon us with the agreements we have already concluded -- such as SALT and Berlin -- and with CSCE preparatory talks underway and MBFR initial talks soon to begin. In the face of this complex of East-West discussions, we are beginning to hear a great deal about the profound and lasting shift in the basic attitudes and approach of the Soviets towards the West.

This is premature. Detente without adequate defense is delusion.

Rather, what is clear to me is that profound differences and disagreements continue between us. These differences cannot simply be ascribed to historical accident or misunderstanding. They are rooted in different conceptions of the rights and responsibilities of men and of governments, and in different approaches to dealing with other nations.

Nor can we ignore other facts which bear on our hopes for successful negotiations with the East:

-- We cannot discount the large, highly capable and improving Warsaw Pact forces in Europe.

-- We cannot shut our eyes to the rapid and sustained Soviet arms expansion and qualitative improvement in recent years.

-- We cannot ignore the worldwide expansion of Soviet maritime forces and activity.

-- We cannot disregard growing Soviet military presence and involvement in areas adjacent to NATO such as the Middle East and the Indian Ocean.

The simple fact is that the Soviet military build-up, conventional as well as nuclear, continues with vigorous momentum.

Unless we face this strategic and political reality and make this recognition the starting point for our negotiating efforts, we jeopardize the chances for achieving peace, while subjecting our vital interests to serious danger.

This is not to say that we should be unprepared to consider reasonable risks for peace. On the contrary, in concert with our Allies, we should seek to build a new relationship with the Soviet Union and the nations of Eastern Europe, a relationship based on reciprocal self-restraint and mutual accommodation of interests. But that relationship can only be built on the foundation of a strong and unified West.

It may be true that an era of negotiations is, in some ways, more demanding than an era of confrontation, but I am confident we are equal to the challenge.

One such challenge that the alliance now faces is negotiations for Mutual and Balanced Force Reductions (MBFR).

MBFR is a NATO initiative, dating back to 1968, designed to achieve a more stable military balance at lower levels of forces and thus reduce the risk of conflict in Europe. After several years of allied preparations and attempts to engage the Soviet Union and other Eastern European states in an MBFR dialogue, certain Eastern European countries, including the Soviet Union, have now indicated their willingness to enter into exploratory MBFR talks soon to get under way. There is hope that these exploratory talks will enable negotiations to begin in the autumn of 1973.

The prospects for progress in the MBFR negotiations mean a number of things for the Alliance:

-- our exhaustive examination of MBFR has demonstrated that there is no quick and easy path to success; hence, we must approach MBFR with prudence, purpose, and determination in pursuit of our objectives.

-- since any weakening of collective defense efforts would undermine our position at the negotiating table, we must guard against any tendency to use the prospect of MBFR as either an excuse for unilateral allied reductions or for lagging in force improvements.

-- we must not view possible MBFR results as a reason for reducing defense expenditures over the longer term. MBFR will not obviate the need to maintain and improve our conventional capabilities; on the contrary, it will put a premium on the need to make the most efficient use of our defense resources.

In sum, MBFR can, if the members of the Alliance approach it properly, be the military complement to the political effort of the Alliance to lower the level of confrontation between East and West.

Some have expressed concern over our ability to manage MBFR and other negotiations while maintaining allied cohesion over their course. But however great a challenge MBFR may be for us, in many ways it will be an even more severe test for the East.

Whatever our problems here in the West, the mutual trust that has long prevailed among us will be a great asset over the months ahead as we negotiate with our adversaries.

It is a trust that is rooted in common ideals and aspirations, and in a tradition of confident dealings with each other. It is an asset that all of us must guard with care.

The Alliance has been, and remains a mighty force for peace. I leave office confident that NATO will continue to serve this high purpose.

3. Summary

I have described here the dominant defense implications of the Nixon Doctrine that have guided our national security planning and actions over the past four years. I believe that by any standard of measurement we have covered a good part of the road that we must continue to travel. And it is in the nature of the enterprise that the first steps are the hardest. For they entail reorienting long-held views and patterns of actions, not only on our part, but on that of our Allies. For a quarter century we and our Allies have operated on the basic belief that it was fitting and feasible for the United States to assume primary responsibility for countering all threats to the common security. The lesson both we and our Allies have had to learn together over the past four years is that partnership, not predominance, sharing, not supremacy, is in our common interests.

Shared sufficiency, Mr. Chairman, is what it is all about.

B. The National Scene

1. The Weapons System Acquisition Process

When I became Secretary of Defense, Defense procurement practices were being pursued on an unrealistic, inflexible basis. Obviously, this was one of the most serious problems I faced. You are aware of the difficulties caused by the total package procurement practiced before I became Secretary.

Led by Dave Packard's pragmatic approach to management, we diagnosed the problem and found many deficiencies: faulty initial decisions based upon unrealistic requirements, improper contracting, and inadequate testing had gotten the Department of Defense "locked-in" with contractors and inadequate weapon system designs. Many cost estimates were unrealistic, yet they were accepted. Defense industry had troubles that involved both its finances and management. In the period prior to 1969, OSD thought that OSD had a monopoly on the proper answers. Paperwork had everyone in a strangle-hold. Dave Packard was right when he called this a "mess." A basic change of direction was mandatory.

A new course was charted. It was promulgated in DOD Directive 5000.1. On this new course it is much less likely the Department will find itself "locked-in" to untimely decisions. The Defense Systems Acquisition Review Council (DSARC) was established. Periodic DSARC reviews at key program milestones have given a phased, orderly approach to acquisition decisions. Test and evaluation data now form a part of DSARC decisions, particularly at the production-release milestone, as do parametric cost estimates. A Cost Accounting Improvement Group is helping develop independent, objective cost information. We are seeking wherever feasible to prototype and test hardware before we make major dollar spending decisions. We have reduced the paper-mill. Our program managers and their staffs are now more closely involved with the contractor right from the early design stages. We are making performance-cost tradeoffs and we rely frequently on "off the shelf" hardware and sub-systems.

We are now more flexible in our contracting approach. We have moved away from total package procurement. Recognizing the inherent uncertainties in the development phase of weapons systems, we have also moved away from fixed-price-type contracts and toward cost-type contracts for development. At the same time, we have sought to reduce concurrency between development and production, in order to minimize uncertainties in the fixed-price-type contracts utilized for the production phase of weapons acquisition.

Our revised approach has begun to pay off. Such programs as the B-1, the F-15, and the A-X prototype competition for "design to a cost" are good examples.

Among the less noticed, but equally significant changes in the weapons acquisition process, are those affecting program management. The tours of duty of the military program managers have been lengthened and stabilized to avoid the turbulence of frequent and inopportune changes. For major programs, experienced program managers of more senior rank have been assigned. Promotion policies have been changed to insure that program managers do not suffer in terms of promotion prospects as a result of their longer tours and their consequential absence from command positions. Appropriate authority and responsibility has been delegated to program managers and the lines of authority to them have been streamlined to minimize the number of intermediate commanders and to facilitate direct reporting to senior officials. Visits to and reporting demands upon program management offices have been severely constrained to minimize interference with the substantive responsibilities of program managers.

As you and your Subcommittee Chairman particularly realize, Mr. Chairman, the impact of these weapons acquisition changes cannot be adequately measured for effectiveness in the short term. Only after the lapse of time required for complete acquisition cycles can the effectiveness of the new policies and practices be fully evaluated.

In the meanwhile, problems flowing from acquisition programs, such as the F-14 aircraft and the LHA, initiated under former policies and practices, will continue for some time to occupy the best efforts of Departmental management with corrective efforts.

In my considered judgment, solutions to these programs do not lie in "bail-outs" of the contractors who entered these contracts. For defense contracts to have viability, the sanctity of the contracts must continue to be protected.

There have been no "bail-outs" of defense industry in the past four years. I would note that the Lockheed loan legislation enacted by the Congress was directed to solving financial problems of Lockheed Aircraft Company which arose in connection with the production of the L-1011 TRI-STAR -- a civilian aircraft, not a defense program.

If we are to continue to have an effective acquisition process, we cannot pick and choose which to enforce among valid existing contracts when changes are made in acquisition policies. If contracts result from coercion or misrepresentation, there are legal remedies; but valid and enforceable contracts cannot be abrogated with impunity.

I want to mention also another important and often overlooked facet of weapons acquisition where more progress is needed. We are seeking to incorporate better long-range cost estimates into our basic weapons selection process. The reason why this effort is so important is that we now spend in the aggregate about $20 billion per year on maintenance, and maintenance costs have recently increased more sharply than the value of the weapon systems themselves. We have much to do in this area and are hard at work to improve this aspect of the weapons systems acquisition process.

Besides the visible products of our research and development effort, we need to consider the technology base which underwrites these programs. Approximately $1.5 billion of our RDT&E budget supports this technology base, and we have devoted considerable effort to improving the management of this base. For example, we have established "Technology Coordinating Papers," which serve in each technology area as guides for direction of effort, more effective allocation of resources, and minimizing redundancy. By the same token, we have integrated more fully the laboratories of the Department of Defense into a coordinated effort in contributing to our overall technology effort.

We have also sought to increase R&D productivity through the pursuit of cooperative R&D programs with allies, as I mentioned earlier, in line with our Total Force Planning approach. We have established an intensive exchange program with allies to permit greater exploitation of our respective weapons systems development,

thereby reducing R&D duplication and achieving greater standardization. This is an area which can result in significant pay-offs in the future, given the support of Congress for these types of effective partnership programs, but it is obviously not a solution to all our problems.

During the course of the past four years we have also tried to improve our assessment of the technology which potential adversaries are developing. I have reported to the Congress in the past some of the results of our net technical assessment, and some of the difficulties of measuring the technological effort within a closed society.

You are aware, Mr. Chairman, of the major technological growth in the Soviet Union, and of the implications of this growth for our future security. Nevertheless, I am concerned that in the five budget years since 1969, Congress has reduced our RDT&E requests by over $2.6 billion. This means that since FY 1969 our RDT&E budget as voted by the Congress has only kept pace with general inflation.

We have technological superiority today; if major reductions in the R&D budget continue, we will lose it.

2. Fiscal Affairs

In the fiscal area, the key issues of the past four years have been misunderstanding of the true impact of the Defense budget, escalating manpower costs, the complex problem of assessing the benefits gained from the expenditure of resources, and the continuing inability of the Congress to appropriate funds for the Department of Defense until well into the fiscal year for which the appropriation is intended.

In the broadest sense, our objectives have been to obtain the resources required to meet the Nation's security needs and to manage those resources in the most effective way possible. In large measure, we have succeeded.

Major improvements have been made in the Planning, Programming and Budgeting System. The fiscal realities we face are now introduced at an early stage into the planning process through the Fiscal Guidance, issued each year, which is then followed by comprehensive policy and planning Guidance. The Selected Acquisition Reporting (SAR) system, developed and implemented since 1969, has enhanced our relationship with Congress through accurate and periodic program description and full disclosure of the costs of weapons systems. But we have not fully succeeded in getting across to Congress and the public the impact of inflation and pay raise costs upon defense expenditures.

Few appreciate what has happened in defense programs over the past four years as we moved to the Nixon Doctrine peacetime deterrent baseline forces and the building of effective programs for the future. Since the 1968 war peak we have reduced defense spending by $33 billion in FY 73 dollars. We have accomplished this by:

-- reducing military and civil service personnel by 30% or 1,440,000.

-- reducing purchases from industry, in real terms, by 40%.

Defense spending for FY 1973 in real terms is at a lower level than at any time since FY 1951 -- and down by about one-third from FY 1968. Manpower (military, DOD civilian, and defense-related in industry) will be at the lowest levels since FY 1950. We are making an effort to examine our operations to uncover further opportunities for reductions -- but we must make those reductions where they can be taken without endangering our security. We must at the same time continue to assure that sufficient resources are allocated to meet defense needs whenever and wherever required. This will be a most demanding challenge during the next several years and the Department of Defense will need the support of Congress in meeting these essential national security requirements.

As the members of this Committee know, there are continuing strong pressures to slash defense spending. Some of the vigorous arguments which have gained currency include:

-- We can get defense on the cheap. We can cut support without cutting combat strength, and thereby lower the budget.

-- We can cut "gold-plating" in defense hardware and thereby effect a great reduction in defense spending.

-- We can get more productivity from existing resources and thereby reduce existing force levels and personnel.

-- In any event, our defense budget is too high and out of control. It can be cut arbitrarily with no danger to security.

Each of these arguments has its advocates. I believe that there are, in fact, possible additional efficiencies which can be achieved over time -- but nothing approaching the magnitude of the cuts we have been able to make since 1969. Additional significant reductions must await successful negotiations in such areas as SALT II and MBFR I and hopefully in the future, in the area of Military Assistance as well.

We will continue to be faced with difficult tradeoffs which involve:

-- Maintaining force structures to provide effective military capabilities in the near term;

-- Providing adequate levels of readiness and support for the forces maintained; and

-- Continuing movement in modernization, to make up for the past shortfalls and to provide adequate future capabilities.

Our force levels have been reduced -- in some cases drastically -- during the past four years. We have worked hard to improve readiness of the remaining forces and have achieved some success, while at the same time reducing our support and overhead costs. Our modernization programs have moved forward, although sometimes with mixed success in Congress.

Those who advocate radical reductions in our programs should view defense spending within the overall budget perspective.

Over the past five years the increase in federal non-defense spending -- $74 billion -- has nearly equalled the total defense budget; the increase in state and local spending -- $80 billion, one quarter federally financed -- has also equalled the total defense budget.

It is clear that overall national fiscal problems are bigger than the defense budget, are not caused by the defense budget, and cannot be solved in the defense budget, although past defense cutbacks have helped come to grips with these problems.

Crucial elements of our strategy for peace are to encourage our allies to contribute a larger share of the capability for our mutual defense, in a more effective partnership, and to seek effective force reductions through negotiations. Our allies in NATO and also in Asia have begun to move in this direction and we have achieved success in some negotiations so far, with good possibility for further success in the future. If we want to undercut those chances, the best way I know is to slash defense programs.

A major problem ahead is the impact upon Defense resource levels of the Federal fiscal situation where non-Defense claimants, many of which are set in statute, will continue to compete for limited revenues. Given the continuing prospect of a stringent Defense budget, we must reemphasize the development of management concepts directed toward getting more for our money.

It is my belief that we today have the strongest peacetime military force in our history and we have those forces at the lowest resource level in over 50 years. This of course is a source of pride for me as it concerns our stewardship at the Department of Defense.

a. Congress and the Defense Budget

There is another area of DOD financial management where real problems exist and no reasonable solution is in sight. That area is the handling of our budget requests by Congress. Specifically, we have four major problems:

-- an ever-increasing portion of the Defense budget is being subjected to a duplicative review by a series of Congressional Committees;

-- we can expect the regular appropriations bills to be enacted around the end of December, halfway through the fiscal year, and large pay supplementals to be enacted around the end of June, at the end of the fiscal year;

-- a pattern of ever-more-detailed controls -- appropriations have been subdivided, availability periods shortened, and so on; and

-- an increasing number of restrictive legislative provisions.

The Department of Defense has been directed by the Congress to provide separate appropriations and revised budget activity structures for FY 1974. In the FY 1973 cycle, a number of legislative items were added during the authorization and appropriation process. These included changes in personnel compensation and allowances, normally treated in substantive legislation, which were incorporated in the Appropriations Act.

The tendency toward increasingly detailed control and specificity on the part of Congress is understandable, but it is inherently contradictory and self-defeating. Such controls are costly to administer, and they impact adversely upon program cost-effectiveness. The fundamental point is that there is no way in which anyone can predict 12-24 months in advance all defense requirements with great exactitude for each of thousands of separate items. Change is inevitable. If funds are frozen in too many pockets too far in advance, the results can only be highly damaging. Congress does not have the staff and other resources to handle so much detail. The present tendency could easily lead back to the conditions of the early 1950's, when we had a much more detailed appropriations structure that served for many years as the horrible example in tracts on Congressional reform.

The four problem areas noted above tend, by interaction, to create many situations of which the Congress itself has been highly critical. These conditions lead to serious difficulties in

both the Congress and the Executive Branch, impairing the ability of both co-equal branches to function and to cooperate. These problems are likely to persist unless present arrangements are changed.

The problems for the Department become obvious when we look at developments over the next several months. A large pay increase supplemental is necessary for FY 1973. The appropriations for which supplementals are required comprise, in total, about three-fourths of the DOD budget, and virtually every organization in DOD is involved. The supplemental will probably not be enacted until June 1973, with the Committees using the latest possible data so as to take advantage wherever possible of falloffs in obligation rates. The military departments and defense agencies, uncertain of the amounts to be provided, will have to defer projects wherever possible.

Beginning in about May 1973, meanwhile, work will begin in the field on the FY 1975 budget, which will fix much of the detail for that submission. This work for the year ending June 30, 1975 must be based upon assumptions as to what is to be provided for FY 1973 and in the regular FY 1974 bills. As noted, the FY 1973 supplemental will not be enacted until June and the regular FY 1974 bill will be enacted around December 31, by which time the FY 1975 estimates must be with the printer.

In the entire budget process, then, there is never a time when there is a firm base for formulating and executing programs.

With delay and uncertainty compounded, there is necessarily a great deal of confusion, change and inefficiency. This situation is costing the American taxpayer millions of dollars, hampers effective national security planning, and cries out for effective reform.

The efforts of the Congress are devoted almost entirely to projections for a single 12-month period, which begins about five months after the estimates are presented. Those five months quickly melt away, and the authorization bill is still being considered on the floor well after the fiscal year has begun. It is only after the authorizations are enacted -- mid-November in non-election years -- that the Congress can take up appropriations, including for the first time the large portion of the budget that is not subject to authorization. The passage of time in itself sharply limits the actions which the Congress can take on the budget, since a large portion of the funds requested have already been spent and a large further portion committed under continuing resolution. Moreover, the Committees and their staffs must devote a great deal of attention to frequent Defense program changes, which are themselves to a large extent the product of delay and uncertainty.

It is quite clear, then, that present arrangements are producing results that are highly unsatisfactory from the viewpoint of the Congress, the Executive Branch, and the American people. In considering improvements three additional points should be mentioned. First, efforts simply to speed action under present arrangements appear unpromising. For example, while the authorization process

might be accelerated somewhat, it is not reasonable to expect enactment of authorizations in, say, March, so that appropriations could be enacted well in advance of June 30.

Changing the fiscal year to the calendar year is likewise unpromising. Our objections to this suggestion have been presented in detail to the Committee on Government Operations. Among other objections, it was noted that the budget submission would have to be delayed until April, a sure loss of three months time for the Congress, leaving only about six months to complete action in even-numbered years -- essentially the problem we have been unable to solve under current procedures.

A third consideration which must be clearly understood in any attempt to improve present arrangements is that major parts of the Defense program are very difficult to change in a short period of time. Even in the areas where reaction time is shortest, such as manpower and operating costs, several months are required in order for changes to take effect. For major production and development programs the reaction time is much longer. In the summer of 1973, for example, the Congress will consider Defense estimates for FY 1974 which will have been underway since July 1 and which will even by then be difficult to change. By November and December this difficulty is compounded, and yet the Congress has no vehicle for considering programs beyond the fiscal year already well along. Such a vehicle is clearly needed.

Various other alternative solutions have been proposed, such as providing authorization on a 2-year cycle, or providing authorization in terms of the programs to be accomplished.

In my opinion, as one who has had the privilege of serving for extended periods of time in both of the co-equal Branches of our government, the only feasible longer range alternative is to provide authorization in terms of the programs. This approach would provide the most effective means for the legislative Committees to discharge their responsibility for management of the Defense program, while at the same time exercising the proper degree of control.

At the time of the initial program authorization the milestones for accomplishment could be established and existing reporting machinery, including the reports now required pursuant to section 506 of the FY 1972 Authorization, would provide the basis for continuous legislative oversights. As you know, these reports include specific information as to the development and procurement schedules for each weapons system, complete data on operational test and evaluation, and timely reports of contract awards.

The quarterly Selected Acquisition Reports, with which you are now fully familiar, provide the comprehensive financial data necessary for your review. Such information would provide a basis upon which timely action could be taken in any case in which it is indicated that the initial program authorizations should be changed. From the standpoint of the managers in the Department of Defense the delays and confusions and uncertainties I have outlined would be eliminated. Funds could be provided in a more orderly fashion through

the appropriation process as each annual segment of the program was financed. Time and money would be saved and national security enhanced under this process.

Before leaving the area of financial management, I want to give special recognition to what I consider perhaps the best treatment of the economics of Defense ever to be produced. I am referring to Secretary Moot's publication of last July "The Economics of Defense Spending -- A Look at the Realities." I commend to all of you, and to all others who wish to become knowledgeable about the realities of Defense spending, this in-depth examination. With your permission, Mr. Chairman, I will include a summary of the myths and realities presented in that document at the end of my statement.

3. Manpower and Reserve Affairs

Because I have long been aware, Mr. Chairman, of your unfailing concern for the welfare of the military and civilian members of the Department of Defense and their families, I am particularly pleased to report to you that perhaps the greatest progress made during the past four years by the Department of Defense in any single area of concern has been in matters related to people. I appreciate greatly -- particularly in view of your expressed doubts -- the statesmanlike support you have provided for programs that we have proposed to achieve Zero Draft calls and an All-Volunteer Force. At the same time, you were able to overcome the doubts of many in government

by working tirelessly and successfully for passage of HR-2, related to the education and training of doctors for the Armed Forces.

In short, the co-equal branches of government have worked together since 1969 in the best interests of the men and women who serve our nation in uniform. That is worthwhile work.

Achieving the All-Volunteer Force -- Active, National Guard and Reserve -- and implementing the Human Goals program have been principal objectives of our Manpower and Reserve Affairs programs. This effort reflects many programs; establishing equitable and competitive levels of military pay; providing better living conditions for military families; improving the quality of military recruiting; increasing the challenge of military jobs; civilianizing military jobs; expanding the role of women in the Services; and revitalizing the Reserve Forces, among others. The All-Volunteer Force will affect the attitudes of youth and the operation of the Defense Department for many years to come, as it will also influence the character of our Armed Forces and how they are managed. The actions needed to ensure its long range effectiveness must continue to receive high priority attention and discussion in all segments of our society.

In whatever actions we have taken to improve the quality of life for military people, we have kept foremost in mind that discipline is essential to effective military forces in a democratic society, and that discipline also is essential in achieving our human goals.

Accomplishment in implementing the All-Volunteer Force, the Total Force Concept, and the Human Goals program have been substantial and they reflect tremendous credit upon military and civilian people, both in the Active and Reserve Forces.

Both the accomplishments and shortcomings in the manpower area should be viewed against the backdrop of the extreme turbulence of the past four years -- a period in which the Armed Forces were reduced by more than 1.2 million men and women. Throughout that period, the military services continued to experience the high turnover effects of heavy draft years, while maintaining a large combat force in Southeast Asia and elsewhere overseas. This was a tough challenge for manpower managers and military members and their families. In the face of these problems, the men and women of the Department of Defense have performed magnificently, and as I leave office I salute them.

The Total Force Concept has had a major effect on the Reserve Forces. The policy declaration of August, 1970 established that in the future, the Reserve Forces would be the initial and primary augmentation force for the Active Forces. This policy was reinforced by a series of actions that have revitalized the Reserve Forces; rebuilding equipment inventories depleted during the Vietnam buildup of the Active Forces; improving readiness; redefining the roles and missions of the Reserve Forces; and educating the public and employers to the vital role of Reserve Forces. To ensure the combat effectiveness of Reserve Forces, a major continuing effort is necessary in the years ahead.

The Human Goals statement, which I have included in every Defense Report I have presented to the Congress and which are also incorporated at the end of this statement to you, Mr. Chairman, has provided a guide for our total relationship with people. Most important, it has served to constantly remind us that people are our most precious asset. The extent to which the Human Goals have become a way of life throughout the DOD is a measure of how well we have done and the challenges that lie ahead.

a. Some Special Manpower Problems

I said that I would discuss shortcomings in the Department of Defense, and I have done so in the preceeding sections of this report.

We also have some shortcomings in Manpower. I want to emphasize that the only way to avoid problems and shortcomings when it comes to people is to be in a cemetery. What we all want the United States to have is an Army, Navy, Air Force, a Marine Corps and a supporting Defense establishment that are alive. And that means that we will have some controversy and shortcomings. I want to mention a few of them in the manpower area.

With the end of the draft, we will need to take a new look at how we use the men and women who volunteer. We need to do even better in matching people to jobs. And we need to give additional thought to how we can enhance through better training the opportunities for men and women, both military and civilian, to rise to higher responsibilities.

As one who has spent a large part of his Congressional career looking into educational problems at all levels, I am concerned that opportunities available through the GI Bill are not being sufficiently utilized. I also believe that we are in a position now -- because of more stabilized duty assignments -- greatly to increase the educational opportunities available to enlisted men and women and officers in all the services.

Mr. Chairman, I am both proud and gratified that minority group leaders have commented that more progress has been made in the field of equal opportunity here in the Department of Defense during the past four years than at any other time in the history of the Department. The establishment of the Defense Race Relations Institute, at Patrick AFB, Florida, has attracted widespread interest, not only in the services but in the civilian sector as well. We have made much progress toward providing equal opportunity for our service men and women, but more remains to be done. And let me be frank to say that the expectations of minority members who had long been denied equality of opportunity have risen. Any retreat from the progress we have already made since 1968 would not only be inexcusable; it would be foolhardy.

In another case, Mr. Chairman, we have completed work on legislative recommendations which will be submitted to Congress on changes in the nondisability retirement system for military members. These recommendations are the result of intensive studies by an interagency committee appointed by the President and a DOD

study group appointed by me. The recommendations are concurred in by the Joint Chiefs of Staff and each of the Services.

If implemented, the proposed changes would produce substantial savings in the future cost of the military retirement system. More important, they would have the effect of producing a better mix of short-term and career military members and would utilize more effectively the dollar resources assigned to retirement. The proposed changes are, in my judgment, fair to both the individual service member and to the taxpayer.

The proposed changes are being explained to all Service members, and in a way that will enable individual Service members to understand how the recommended changes will affect them and their families, including any differences between the proposed and the present system.

b. The All-Volunteer Force

"Our objective of attaining an All-Volunteer Force by the end of this fiscal year is essentially on track." However there must be attention in the early months of the 93rd Congress to passage of the Uniformed Services Special Pay Act. Without this Bill, there will be shortages in the Reserve Forces and in critical skills of the Active Forces.

Attainment of competitive levels of pay for military members through Public Law 92-129, must be maintained in the future. "Competitive levels of pay are essential to maintaining the All-Volunteer Force." //

As I prepare to leave office, I want to say again that if the Department of Defense has the full support of Congress and the full support of the American people in assuring that those who serve the military profession receive the respect, recognition, and compensation that they deserve, we will be able to have an All-Volunteer Force. But all of us must recognize that we are breaking new ground and that no one at this point in time can guarantee absolutely that the United States will be able to maintain an All-Volunteer Force for the indefinite future.

Certainly, it is prudent that we maintain a Standby Draft mechanism to provide authority to register and classify military eligibles and thus reduce the time needed to mobilize them if necessary.

c. Building an Effective Reserve Force

During the past four years, and particularly since establishment of the Total Force Concept in 1970, the major thrust of all programs for the Guard and Reserve has been the improvement of combat readiness. Significant improvements have been made in both quantity and quality of equipment, and training has improved markedly as a result. The recruiting efforts of the Guard and Reserve have not kept pace with the strength shortfalls which resulted as draft calls decreased and fewer draft-motivated persons applied for membership. However, the drops in strength which occurred as a result of lessened draft pressure have leveled out and the recruiting effort has even produced moderate strength increases in recent months.

There must be no lessening of the momentum which has been established to produce required levels of Guard and Reserve combat readiness. As readiness improves, we must carefully examine the balance of force mix and force levels among Active, Guard and Reserve elements in order to achieve maximum economies in maintaining adequate national security.

In the recruiting area, the need for additional incentives, tailored to the needs of the Guard and Reserve, has been established and the authority for such incentives is required. At the same time, there is a need for greater support of Guard and Reserve recruiting by Active Force recruiting organizations. We are working on efforts in this area.

Some improvement in public understanding of the role of the Guard and Reserve has been made as a result of the clear statement of their national security mission. More improvement will result as combat readiness improves. The early efforts of the National Committee for Employer Support of the Guard and Reserve have been outstanding and this activity is planned to continue. In particular, it is important that employers in the public and private sectors make appropriate adjustments in their personnel and employment policies necessary to attract participation in Guard and Reserve programs.

Since 1969, with the support of the Joint Chiefs of Staff, we have been able to involve National Guard and Reserve units to an unprecedented degree in training exercises here in the United States and overseas with our active forces. The United States Readiness Command has done much to emphasize the total force approach.

As you are well aware, Mr. Chairman, recent actions have been taken to strengthen the leadership of Naval Reserve training, and the Air Force continues in the forefront of integrating Air National Guard and Air Reserve Units with regular forces. Marine Corps Reserve readiness also has greatly improved during the past four years.

An important new action will be announced soon -- possibly later this week -- when the Army will report details of a comprehensive reorganization. This Army reorganization will assure greatly increased attention to ROTC, Reserve and National Guard Programs in all our fifty states.

d. The Human Goals Program

The Department of Defense Human Goals, originally issued August 18, 1969, established the framework for all our manpower programs and policies.

A key paragraph reflects the continuing thrust of our personnel management program.

> "The defense of the nation requires a well-trained force, military and civilian, regular and reserve. To provide such a force we must increase the attractiveness of a career in defense, so that the Service person and civilian employee will feel the highest pride in themselves and their work, in the uniform, and the military profession."

I would like to highlight for you where we stand with regard to our Human Goals.

The most tangible evidence of our progress in attaining an All-Volunteer Force is the sharp decline in draft calls which has

occurred since the years of peak United States military involvement in Vietnam. This progress continues. During the last half of CY 1972, 35,000 men were drafted for the Army. At the same time, despite reduced draft calls, voluntary enlistments increased. Substantial decline in draft calls has been made possible by two actions. First, we have been able to reduce the size of the Active forces themselves, largely through successful Vietnamization. Second, we have been able to attract more voluntary enlistees to military service.

The recruiting programs ended calendar year 1972 on an up-beat. The Army recruited 13,500 new men in December 1972, the largest total for that month, in more than 20 years. The Navy, Marine Corps and Air Force met their recruiting objectives.

Total enlistments in calendar year 1972 were 414,800, which is 32,600 or 8.5% above the total for 1971 and 61,200, or 17.4% above the 1970 total.

Our estimates of "true volunteers" -- men who would have enlisted even if there were no draft -- totaled 331,900 in 1972, an increase of 82,900 or 33.3% from the 1971 total and 121,000 or 57.4% more than the number of true volunteers enlisted in 1970.

Although the total number of true volunteers recruited in calendar year 1972 is below the projected requirements for the Active Forces in subsequent years, the current volunteer rate -- taking into account normal seasonal variations -- would indicate that the Active Forces are obtaining a sufficient number of true volunteers to meet their gross requirements.

The Services are experiencing difficulties in meeting their recruiting objectives for men with the requisite aptitudes required for some specific skills. The need for the enlistment bonus authority contained in the Uniformed Services Special Pay Act continues. The Services' ability to meet their manpower requirements in many of these special skill areas is dependent upon prompt passage of the Special Pay Act.

There is little question that the challenges and satisfactions of military service can result in higher rates of reenlistment than those experienced in recent years. Reenlistment, of course, must be managed so as to avoid promotion stagnation and an over-aged force, and this is a potential problem in the years ahead.

I owe it to our men and women in uniform to explain that grade creep has been unavoidable as we cut our forces by 1.2 million. It would be a grievous injustice to penalize career military people who have served honorably by imposing harsh restrictions on advancement opportunities. Some temporary legislative relief may be necessary, and I feel confident such legislation would have the support of this Committee.

The Total Force Concept has increased the importance of having an effective and responsive National Guard and Reserve. But we must never fool ourselves into thinking that manning the reserves in a draft-free environment will be an easy task. The long lists of applicants for Guard and Reserve membership, characteristic

of the years of heavy draft, have disappeared. And disappearing also are many of the draft motivated young Guardsmen and Reservists as their terms of service expire.

To resolve this problem, intensified recruiting alone is not enough. We need legislative support. Enactment of the Uniformed Service Special Pay Act will also enhance meeting Guard and Reserve requirements. Other legislation which we endorse would help to correct gaps in the benefit structure and family protection provided to personnel of the Guard and Reserve.

Also important for bettering recruitment and retention have been the many programs to upgrade the attractiveness of military life. These programs, such as relief from non-military duties and better housing, have been designed to remove the unnecessary irritants which detract from the environment in which service persons and their families live. Such improvements alone cannot assure motivation and esprit, but the patriotic basis of military service is enhanced by an attractive and dignified style of life.

But to repeat the most important point: In the long run, if the All-Volunteer Force concept is to be successful, we will need the full support of the Congress and the American people. We cannot expect to recruit or maintain a high-quality volunteer force with good morale and discipline unless Americans view military service as an honorable and desirable pursuit. That has been the American tradition; I am confident that it will continue to be so.

During these past four years the Services have removed many of the barriers to full and equal opportunity in the Armed Forces. In the case of women, for example, each Service was directed to review policies which made unnecessary distinctions between servicemen and servicewomen. Each Service is changing these policies as rapidly as possible. Already, the number of military specialties open to women has been greatly expanded. We now have women generals and admirals, and scores of young women in ROTC programs, many of them on full scholarships.

Because of the impending ratification of the Constitutional Amendment concerning women, I believe that necessary funds should be promptly provided by Congress for facilities at the Service Academies so that qualified women can be enrolled.

I am also pleased with the progress we have made in improving race relations. However, the policy and the goal toward which we are continuing to strive is complete racial equality in the Armed Services. Let me cite some of the specific actions we have taken to reach that goal and some of the problems that remain.

-- The Defense Race Relations Institute is now fully operational, and during 1972 over 700 officer and enlisted students graduated. These graduates are now back in their units serving as instructors of the Department's 18-hour race and ethnic relations course. The Institute is also training a special group of instructors who will present an orientation-management program in race relations to all general and flag officers.

-- After an analysis revealed that racial imbalances among occupational specialties could be corrected without the lowering of standards, each Service initiated an intensive management program to insure more equitable distribution of racial and ethnic groups among them.

-- Overall gains in DOD civilian minority employment, and in upward mobility of its minority force, have not been satisfactory. The fact is that we have not been as demanding and creative within our own civilian force as in the affirmative action programs we have required of Defense contractors. The results obtained through these latter programs have been significant.

-- From June 30, 1971, through September 30, 1972, the number of blacks in the Guard and Reserve has increased by 70%, from 16,792 to 28,472, and from 1.7% to 3.1% of total strength.

-- With the termination of the waiting list restrictions in the Fall of 1971, it has now become possible for the Guard and Reserve to recruit women.

-- The recent report of the task force on the Administration of Military Justice in the Armed Forces, which I established, has been most helpful, and before leaving office I will implement a number of its recommendations.

We have also initiated a number of transition programs for our personnel. In FY 1972, we concentrated on supporting the President's Six Point Vietnam Veterans Program. Under our Transition Program in FY 1972 we counseled over 283,000 service personnel, 85,000 of whom also received vocational training. During FY 1973, even though far fewer service personnel will be discharged, we plan to counsel 195,000 personnel and provide training to 65,000. Since 1969, the Transition Program, which furnishes counseling, educational services, vocational training and job assistance to service personnel, providing counseling to 1,250,000 personnel and educational services and vocational training to a total of 250,000.

Joint programs with concerned civilian organizations, such as the National Urban League, have been effective in supplementing assistance received by minority members pending separation. Preliminary information indicates that civilian organizations, in addition to the National Urban League, are contemplating establishment of assistance centers for returning minority servicemen. For example, the American G.I. Forum, a Spanish American veterans organization, will create centers at 17 cities across the United States.

The National Committee on Jobs for Veterans has rendered outstanding service in increasing the visibility of military veterans as prime job prospects. Its efforts include Job Fairs which have been held in major American cities and Job Information Fairs in the Pacific and Western Europe. Veterans unemployment has been reduced to the level of non-veterans unemployment.

During the past four years, Active Duty, Reserve and National Guard units have participated in countless humanitarian acts that have improved the quality of American life. We have tried to make Defense dollars do double-duty when this has been possible without impairing our primary mission of national security.

Through our Domestic Action Program, we have continued to encourage the involvement of local installation commanders with their surrounding communities. Since 1969 this program has been expanded to include all Active Duty installations and over 90 percent of Reserve and National Guard units throughout the country.

There have been many achievements in hiring the disadvantaged, awarding more contracts to small and minority businesses, transferring excess DOD resources to those in need and in sponsoring vocational, educational, and recreational programs on military installations for more than 2 1/2 million young people during each of the past two summers.

We also operated special programs for Alaskan natives, Indian youths, and Neighborhood Youth Corps enrollees.

Not only have our Domestic Action activities enriched the lives of the socially disadvantaged; they have also enriched the lives of thousands of servicemen and women and their families.

4. Managing the Department

Just as the United States can no longer hope to bear all of the burdens and provide all of the answers for effective security in this changing world, neither can a few individuals hope to manage

effectively the complex business of defense. That is why we adopted and have followed a participatory approach to defense planning, providing basic policy guidelines and directions, putting good people in the right jobs, and then leaving effective execution of policy to the individuals responsible.

I would now like to review and place in perspective some of the changes that we have made in managing the Department, and some of the results. Others are mentioned elsewhere in this report in relation to the functional area discussed.

a. Management Changes and Associated Progress

A major basis for our improved management procedures was established early in 1969, when we decided to provide fiscal and policy guidance at the very beginning of the Planning, Programming and Budgeting System (PPBS) cycle. This change introduced realism into the process. These improvements in the PPBS facilitated realistic planning, programming and budgeting, enabling us to focus on more effective use of available resources. We were not interested in being able to claim that we had cut some $20-$25 billion from Service budget requests during the final stages of the budget review process -- an approach which weakens civilian control and effective management. Aside from the important fact that we have been able to strengthen effective civilian control, this realistic fiscal planning has contributed to the Department's four year record of having lost no major program on a roll-call vote in the Congress.

Since 1969, three new Assistant Secretary of Defense positions have been created -- Intelligence, Telecommunications, and Health and Environment -- and one such position -- Administration -- was abolished.

As a Member of the Congress, I was critical, with many other colleagues, of Department of Defense Intelligence and Communications activities. When I became Secretary of Defense I had an opprtunity to initiate corrective action, and this has been done.

In assessing the challenges to our national security posture when I took office, it was apparent that the prospective changes inherent in the shift from confrontation to negotiations, the Soviet momentum in the field of strategic weaponry, and the reduction in size of our Armed Forces would significantly increase the necessity for more and better intelligence. Our efforts were directed accordingly.

Approximately 87 percent of the government's intelligence effort is financed in the Defense budget and is conducted with Defense resources. Thus, improvements in those portions of intelligence which fall under the management purview of the Department of Defense have a most significant bearing on the effectiveness of the total intelligence effort.

Some of the changes in the management of Defense intelligence are easily visible. In addition to the creation of the position of Assistant Secretary of Defense for Intelligence, the

Service Cryptologic Agencies (SCA's) were consolidated to comprise the Central Security Services, whose Chief reports directly to the Secretary of Defense. Intelligence was constituted as a separate program for resource management purposes.

These, however, only indicate a difference in management approach. What is far more important is the improved effectiveness produced by these and other changes in management methods. Over the past four years the usable intelligence collected has increased by about a factor of four. Productivity within the Defense intelligence activities has increased by an even larger factor. Of even more importance, the quality of our intelligence product has also been greatly improved.

Progress has been significant in improving the effectiveness of our own Defense Intelligence Agency (DIA). A major reorganization of DIA has enhanced intelligence output while at the same time reduced personnel by some 20%. The recently established Directorate for Estimates in DIA has been a major factor in improving intelligence estimates for more effective inputs to our weapons system decisions. At the same time, we have moved forward with improved personnel management and development programs for intelligence specialists. Major additional improvement is possible through more effective use of automation, and we need to move forward with research and development for new intelligence processing methods. Intelligence historically has been a people-intensive area, and we can and should make more effective use of automation, both to compensate for our personnel reductions and to improve our efficiency.

In the field of intelligence, we have gone a long way in solving the problems which Congress has cited, but this progress will be lost if efforts are made to cut back on intelligence resources or to put a strait-jacket on the independence of our intelligence outputs.

All duplication has not been eliminated, however. Nor should it be. Unlike many of our activities, there is a need in intelligence for some duplication of effort, and it should continue.

The improvements in intelligence management hold still greater promises for the future. For example, the jobs of intelligence program managers, such as the Director of the Defense Intelligence Agency (DIA) and the National Security Agency (NSA), are no longer viewed as final assignments, as was formerly the case. After full tours, the most recent past Directors of DIA and NSA have been promoted and reassigned to four-star positions. Both were replaced with outstanding officers.

For the future, the requirements for quality intelligence will be increasingly critical to our national security. Not only will it be necessary to maintain adequate funding and to continue to increase productivity, but also to continue to upgrade the quality of the intelligence product. The intelligence product must continue to be independent and objective, dominated by no one -- not the Secretary of Defense, not the Director of Central Intelligence, not the Chairman of the Joint Chiefs of Staff, nor by anyone else.

Our problems in telecommunications included fragmented planning, redundancy and incompatibility of various systems, the need for better security of communications, and taking advantage of developments in technology and automation to improve system effectiveness and reduce manpower. In addition, as part of the overall Vietnamization program, we needed to move forward with an effective program for turning over RVNAF communications to the Vietnamese. While major difficulties remain, progress has been made.

We have established the Consolidated Telecommunications Program to provide more effective management, with program elements encompassing the whole spectrum from research and development through operations. We have moved forward with the TRI-TAC program to provide for a common approach to solving Service tactical problems and to reduce duplication and redundancy, while improving equipment compatibility. Vietnamization of communications has progressed extremely well; the technical capability of Vietnamese communication personnel to operate and maintain facilities turned over to them has exceeded our expectations.

Some continuing problems include providing adequate satellite communications service, resolving common ADP-telecommunications management matters, improving the survivability and security of our communications systems, particularly in NATO, with emphasis on NATO's Integrated Communication System (NICS), and finding an effective way to finance automation and consolidation of telecommunications centers. We must look towards major automation programs to counter the rising

manpower cost trends. To move ahead we will need an effective system design and engineering capability in our defense organization, and the support of Congress for this capability. The work of the Defense Communications Agency (DCA) can thereby be further improved.

We have made progress in improving our Worldwide Military Command and Control System (WWMCCS), with new procedures, increased visibility, establishment of the WWMCCS Council, and other actions, but much remains to be accomplished to improve survivability, reliability, standardization and commonality within this system.

The position of Assistant Secretary of Defense (H&E) was established in July 1971. We faced major problems in achieving an all-volunteer medical force because of ineffective coordination of existing resources, lack of facilities, and consequent misuse of the professional skills of physicians and dentists. We have made progress: the enactment of PL 92-426 for medical scholarships and establishment of the Uniformed Services University of the Health Services should have a large payoff in the future; we are moving forward with improved facilities and new hospitals and are seeking more para-professionals; and we are reducing duplication and bringing the Total Force Concept into operation in this area to effect better coordinated use of all our resources, not just on an individual service basis.

Implementation of these and other programs is expected to lead to a major reduction -- perhaps 20% in the next few years -- in requirements for physicians. But problems remain: failure to pass the "pay bonus" bill for professionals was a major setback in providing

incentives for our professionals; programs exist where the cost is high and payoff relatively low; effort to achieve Total Force Planning was just started, and while progress is encouraging, it is slow and much remains to be done.

We have also made progress in other H&E areas where problems are not unique to the Armed Services, but are a part of our society. We have taken major steps to bring the problem of drug abuse under control in the military through exemption, identification, treatment and rehabilitation programs. I am advised by military and civilian specialists in and out of the Department of Defense that the problem of drug abuse in the military is reasonably in hand today. We must continue our efforts, including assuring that we do in fact have a comprehensive program covering all personnel. Similarly, we have also addressed the problem of alcoholism in the Services, and have established programs for treatment and rehabilitation. I feel that the Department of Defense, since 1969, has done some pioneering work in prevention and treatment of drug abuse and alcoholism, but I would not begin to suggest that we have licked these problems in the Armed Forces.

With respect to the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), we have sought to simplify administrative procedures, better inform the public as to the availability of and procedures for this program, and improve management control. This is a big and expensive program and needs constant watching.

We have moved forward to bring DOD programs in line with requirements for environmental quality. Effective procedures for the filing of environmental impact statements have been established.

We are embarked on a major effort in pollution control and have tripled budget expenditures in this area in the past three years. RDT&E efforts are increasing. While action has been focused on correcting existing problems and progress has been good, positive programs that will avoid or prevent environmental impact rather than correct existing problems, are needed.

The net increase of two in the total number of Assistant Secretaries of Defense did, of course, aggravate the already difficult span of control of offices and entities reporting directly to the Secretary/Deputy Secretary of Defense. The requirement in law for a second Deputy Secretary of Defense as voted in the closing days of the 92nd Congress in response to our strong recommendation should go far to alleviate this excessive span of control problem. In the past, studies of management problems have been proposed to remedy the recognized need for a greater focus of attention on particular functional areas by senior Departmental officials. They did this by recommending the creation of an additional Assistant Secretary of Defense position for the functional area being analyzed or studied. The authorization of a second Deputy Secretary of Defense offers the potential for more effective detailed attention by senior officials to the spectrum of functional activities of the Department than would the establishment of additional Assistant Secretary of Defense positions.

Congress recognized the fact that the Secretary of Defense needs a second Deputy to help him fulfill his responsibilities under the National Security Act as amended. I am certain that when the second Deputy takes office, he will, among other responsibilities, be tasked to help the Secretary and the other Deputy provide information to the Congress across the broad spectrum of Departmental activities.

The establishment of a Deputy Director, Research and Engineering for Test and Evaluation, and the delegation to him of broad authority and independent responsibility in the field of test and evaluation, has remedied a major deficiency in the management of the Department's resources. I have discussed this action in a previous section.

The functions of Mapping, Charting and Geodesy previously scattered among various intelligence program elements in the Military Departments have been consolidated in the newly created Defense Mapping Agency, the Director of which reports to the Secretary of Defense through the Joint Chiefs of Staff.

This agency was established in January 1972, and became fully operational on 1 July. The diverse nature of the products for which it is responsible, and the fact that requirements for these products are increasing , as are production costs, creates a significant management challenge.

When I became Secretary of Defense in 1969, I learned of the dimensions of the extra-curricular involvement of various elements

of the Department of Defense in what has been described as "snooping" on civilians. I learned that virtually all of this surveillance had been initiated by former civilian authorities, including the then Attorney General. I ordered action taken to terminate these practices, and comprehensive testimony was presented to Congressional Committees describing how the right of privacy of individuals was to be protected henceforth, and describing the corrective actions taken to assure that the Armed Forces of the United States stayed strictly within their Constitutional responsibilities. To closely monitor the new policies of the Department on investigations, I created the Defense Investigative Review Council (DIRC). This Council, comprised of senior officials of the Department, reviews, and must approve in advance, the investigative activities of the Department, as well as the collection and retention of information on individuals or organizations.

The Department of Defense should not be in the business of investigating civilians not affiliated with the Department of Defense. But we do have -- and must not ignore -- our responsibilities for personnel security investigations and for protecting military installations. Prior to 1969 personnel security investigations were conducted by each of the military departments, with varying costs and with varying levels of effectiveness. This has now been changed and all work involving investigations for security clearances are now conducted for all components of the Defense Department by the newly created

Defense Investigative Services, which began operations in October, 1972. The Defense Investigative Service, when fully operational, will through its consolidated effort be able to provide more effective service with a substantial reduction in numbers of field offices and a substantial savings in manpower. Further, this consolidation will help insure consistent compliance with the law and the conduct of investigative activity with due respect for the rights of all citizens.

The Advanced Research Projects Agency (ARPA), which previously operated more or less as an integral part of the Office of the Director of Defense Research and Engineering, with some confusion in roles and functions, was organizationally and physically separated from that office to an extent which permits a much clearer delineation of functions and responsibilities and makes possible the operation of ARPA as a Defense Agency in fact as well as name. Since 1969, we have restored the full focus of ARPA's work to basic research and have put applied research and program implementation back into the Services where it belongs.

In the years since 1959 when the Defense Atomic Support Agency (DASA) was created as a successor to the Armed Forces Special Weapons Project, the expertise and capabilities in connection with atomic weapons in the Military Services had so increased as to render unnecessary many of the functional services, such as weapons storage, performed by DASA. In consequence, the DASA was disestablished and a small Defense Nuclear Agency was created to per-

form the residual technical functions and responsibilities which remain beyond the capability of the Military Departments, or for which there was a demonstrated need for the provision of a consolidated service to the Department.

The Defense Secuirty Assistance Agency was created in order to eliminate confusion between policy and executory functions, and to improve the management of the Security Assistance program. While improvement has already resulted by having a specific agency now responsible for this task, the real gain will occur only when security assistance is funded as part of the Defense Budget.

b. Progress in Other Areas

One of the less visible but crucial areas in defense management is installations and logistics. Improvements in this area have generally been accomplished quietly, over time, with little public recognition, and yet they have been major.

Besides the more visible efforts in weapon systems procurement, significant gains have been made in both short and long-term logistic planning. For the first time, we have established a long-range logistics goals plan for Defense. This has been developed by our Logistics System Policy Committee which was established during our first year in office. The work of this Committee also laid the foundation for the integrated management of petroleum and property disposal by the Defense Supply Agency.

There are some 3.7 million supply items in the DOD inventory, valued at several billion dollars. Management of this

huge system requires an enormous and continuing effort. Since 1969 we have expanded the concept of supply management so that, for example, at the end of the current fiscal year virtually all of the 200,000 consumable items will be brought under a central inventory manager.

Progress made in logistics and procurement has also impacted on Defense Agencies. For example, the Defense Contract Audit Agency (DCAA) has had a major expansion of work and a change in the character of the Agency's mission due to our revised procurement and contracting policies. In particular, the movement away from total package procurement and fixed price contracting has increased their workload, and this has been combined with increased work generated by the establishment of the Cost Accounting Standards Board by Congress. These changes have required much more involvement with contractors, and generated problems associated with proprietary information and intrusion into management because of our requirement to review contractor budgetary data.

While the payoff from the efforts of the Defense Contract Audit Agency is high -- over $10 in return for each dollar expended, plus the preventative aspects of effective auditing -- the personnel pressures being felt in this Agency are typical of those defense-wide. It is difficult to recruit good auditors, and Defense-wide reductions in authorized strength have led to a halt in recruiting young junior auditors, which came primarily from the college campuses. This freeze generated a vicious cycle which led to an increase in average

grade structure as a result of normal promotions, the temporary suspension of promotions, and subsequent lowering of morale and losses of well-trained auditors. This example is typical of one of the most difficult personnel management problems we face throughout the Department -- providing a better way to handle our Civil Service hiring, promotion, retention and reductions in force.

The Defense Supply Agency (DSA) is another logistics-related activity where major change has occurred. This agency is today a more effective element of the DOD than it was four years ago. Most significant is the broadened acceptance of DSA as a full logistics partner of the Military Services.

The dynamic character of DSA operations over the past four years has presented major challenges. Logistic support efforts had to be adjusted to meet changing requirements as American forces in Southeast Asia were reduced. Counter adjustments were necessary to provide expanded support of the allied forces in Southeast Asia, improvement in the effectiveness of support to United States forces in other theaters, and the assumption of increased mission assignments.

I have in this report described in general terms some major procurement difficulties which this Department faces. It will not be possible to solve all these problems overnight. Many of them trace their ancestry to the mid-1960's. But I think perspective would be lost if I did not briefly describe some of the logistics management achievements of the past four years.

-- Providing Continuing Effective Logistics Support. During the past four years, improvements have been made in all facets of logistics support resulting in such achievements as higher availability of materiel in stock (92%) and a reduction in requisition response time (85% on-time fill) to meet Service demands. In this regard, the volume of DSA's business currently accounts for over 60% of the 31 million supply requisitions for stocked items processed annually within the DOD.

Considerable progress has been made, as well, in reducing unnecessary items of supply. During the last four years DSA has precluded 393,000 items from entering the supply system and earmarked almost 100,000 items for deletion through standardization actions. This action alone has resulted in major cost avoidance.

To give this Committee a feel for the scope of DSA's operations, DSA administers 172,000 prime DOD contracts valued at $48.7 billion and, on an annual basis, inspects and accepts some $15 billion of new hardware and pays over $11 billion to contractors. Achievements in this part of DSA's job have been significant. For example, substantial progress has been made in improving the quality of materiel accepted for use by the military services. DSA production personnel have assisted the Military Services and contractors in achieving a 45% decrease in the number of contracts with

delinquent deliveries and through prompt payment of invoices, earning $95 million in discounts which represents over 99% of the total discounts offered.

-- Improving Productivity. Progressive productivity improvement or "doing more with less" has been a constant objective. The DSA management system has been tailored to this objective through incorporation of methods improvements, including mechanization, performance standards, and productivity measurement techniques as integral elements. These elements, which became fully operational in the FY 1969-1972 period, function equally for resource requirements determinations and justification, as well as day-to-day administration of available resources. By capitalizing on methods improvements, while simultaneously balancing the work force with fluctuating workloads, a gross productivity gain of 16% was achieved during the past four years. Further improvement can be expected but at a more moderate level.

DSA has achieved a 25% reduction in force while increasing productivity and taking on additional responsibilities.

-- Resource Management. Major developments have been realized which improve management through a "total systems" approach. Because of this progress, DSA has been used as a prototype by the General Accounting Office, Office of Management and Budget, and Civil Service Commission in development of government-wide guidance for work measurement systems.

c. Base Closures and Realignments

In the four years of my service as Secretary of Defense, we have announced 1,805 installation and activity reductions, realignments and closure actions worldwide. As part of these actions, we closed 392 installations activities and properties. These reduced more than 272,900 military personnel positions and almost 154,800 civilian personnel positions, and will result in the reduction of annual Defense expenditures of almost $3.7 billion when completed. Most of the actions have already been completed; some will be by the end of FY 73, and a few will take somewhat longer.

Some have contended that the Department of Defense moved too rapidly in making reductions in our base structures. In fact, it would have been possible, as Dave Packard pointed out over a year ago, to affect an ultimate savings of $1 billion by further base closures and realignments. But a determination was made -- and from a national point of view I think it was a wise one -- to defer the additional package of base reductions, realignments and closure actions in order to ease economic dislocation throughout the country.

Obviously, it has not been possible to carry out the base reductions, realignments and closures that have been accomplished since 1969 without affecting the lives of some millions of our citizens, civilian and military. We must add to this the dislocation brought about by force reductions and reduced contracting. National security must be the primary business of the Secretary of Defense, but I have never been able to ignore the human problems caused by these drastic

changes. I was, therefore, pleased that the President appointed me to head an Interagency Committee on Economic Adjustment. My appointment to this position recognized that we had in the Department of Defense a strong Office of Economic Adjustment.

We expect that by 30 June 1973, the 35 communities that received what we categorize as major economic adjustment assistance will have replaced about 79,000 phased out Defense jobs with close to 81,000 new non-Defense jobs, a better than one-to-one ratio of jobs gained to jobs lost. Moreover, we also expect that these assistance efforts will have created educational facilities for over 10,000 students, provided property for over 3,000 civilian housing units and made available industrial property to over 300 firms, mostly small businesses.

d. Housing for the All-Volunteer Force.

If we are to achieve an All-Volunteer Force, we must provide not only improvements in pay and personnel policies, but also adequate, comfortable housing. We have come a long way from the World War II vintage billeting. Our program has included, over the past four years:

-- Construction of 34,830 family housing units, 122,185 barracks spaces and 6,983 BOQ's at a cost of over $1.5 billion.

-- Improvement of 364,585 existing family housing units at a cost of $107 million. $259,2 million has been programmed to upgrade 206,693 bachelor spaces in the near future.

-- On-base mobile home facilities as an improvement part of the total housing effort, including providing 5,069 mobile home spaces since FY 69, with more planned.

-- Many other efforts to improve housing, including an expanded base to include all E-4 enlisted, upgraded space and living standards, and assistance to locate adequate housing in civilian communities.

e. Vietnamization of Logistics.

The most impressive logistics story of the past four years has been Vietnamization. In a little more than three years since Vietnamization started to turn combat responsibility back to the Vietnamese, the RVNAF logistic system has matured to its present high level of managerial and technical competence. During this period, the RVNAF increased in size by over 25%, while the United States armed forces were reduced from over 540,000 men to less than 25,000 men.

Over 5.3 billion dollars worth of new equipment has been delivered to the Republic of Vietnam Armed Forces. This includes not only the equipment planned for improvement and modernization, but additional unprogrammed equipment to counter the more sophisticated enemy weapons used in the massive invasion of last year.

While engaged in combat, the United States armed forces simultaneously trained the Vietnamese and transferred logistic support responsibility. As our forces were withdrawn, equipment and supplies that could be utilized by the Vietnamese were turned over in increasing quantities.

During the withdrawal of U.S. forces from Vietnam over 2.4 million short tons of materiel valued at an acquisition cost in excess of $6 billion were shipped out of country in an orderly and efficient manner. During this same period over $1 billion worth of U.S. built facilities were turned over to the Vietnamese armed forces. Not only were they taught to maintain these facilities, but in those areas of technical deficiency, e.g., generator repair and high voltage electrical systems, contractor support was provided in order to augment their limited maintenance capability and to train the Vietnamese in the proper maintenance of the facilities.

To comply with the Federal statutes regarding the disposal of military equipment, an extensive property disposal operation was established. Over $400 million worth of usable property and in excess of 614,000 short tons of scrap have been disposed of in Vietnam.

During the past three years the ARVN industrial base maintenance facilities were significantly upgraded, new equipment installed and a massive training program undertaken. Within the next year, with minor exceptions, they will be able to repair and overhaul in-country the majority of equipment in the Army. The Vietnamese Navy Shipyard was completely reorganized, new plant equipment installed, and it is now capable of overhauling the vast majority of Vietnamese ships in-country. The job of upgrading the VNAF base maintenance facilities was a more awesome task. Not only was a completely new facility required, but all the technicians and

middle managers had to be trained. Work which cannot be accomplished in-country by the three Vietnamese military services is removed to offshore locations for repair and return to Vietnam. This "closed loop" system will continue until in-country facilities are capable of accomplishing the total workload.

In order to cope with the infusion of materiel, all three of the Vietnamese military service supply systems have been automated, computer programs developed, and people trained. These systems are well on their way toward maturity.

Although the Vietnamization program was designed to provide essential logistics support, it by no means envisioned the unrealistic goal of total self-sufficiency by such a small agrarian economy in the throes of war. It is indeed remarkable that in such a short period of time the Vietnamese armed forces have advanced as far as they have.

The accelerated withdrawal of U.S. forces, coupled with several accelerated materiel delivery programs, plus the spring invasion by the North Vietnamese, have stretched the capability of the Vietnamese logistic system to the utmost. Although training programs have been accelerated, shortfalls in manpower -- especially trained technicians and middle managers -- have necessitated augmentation with civilian contract assistance.

Financial support will be required for an indefinite period in the future if we are to sustain the RVNAF logistics system and provide essential support in the form of POL, ammunition, repair parts, and technical assistance.

The General Accounting Office has recently completed a comprehensive report on the logistics aspects of Vietnamization. I am most pleased that this "watchdog" organization of the Congress has reaffirmed our own findings of the remarkable progress in the logistics phase of Vietnamization. Although some of our sub-programs have had their problems, when placed in full perspective the entire Vietnamization Program has been a significant accomplishment for which I am extremely proud.

f. Other Contributions to Effective Management

These changes in organization and management procedures and the accomplishments which I have summarized have been enhanced by three related factors.

First, the size of the staff of the Secretary of Defense, the Secretaries of the Military Departments, and the Headquarters Staffs of the Military Services have been substantially reduced without any impairment to effectiveness -- but not without problems and difficulties in personnel management.

Second, a major contributing factor in the managerial improvement of the Department has been the unprecedented stability in the tenure of principal officers in the Department of Defense. Every major office occupied by a Presidential Appointee has been filled by an incumbent who served longer than the average length of service of his predecessors in office. Many of the incumbent Presidential Appointees in the Department have served longer than any of their predecessors.

And finally, we have recognized and rewarded effective effort in those jobs which sometimes had been considered of less significance or with less promotion potential than others. The problems associated with running an organization as huge and complex as the Defense establishment are well-known; no area of responsibility can be ignored, nor can it be considered of minor importance. I believe we have brought a new awareness of this basic management concept into the Department, and have shown that effective performance can be rewarding.

SUPPLEMENT

THE DEFENSE BUDGET
MYTHS AND REALITIES -- A LOOK AT THE RECORD

Myth: The National Defense budget continues to grow.

Reality:

- FY 1973 spending will be the lowest, in real terms, since FY 1951. None of the real growth in the economy over the past twenty-two years is currently allocated to National Defense.

- Since the wartime peak (FY 1968), defense manpower (military, civil service, and defense related industry) falls by 35% or 2.8 million. Purchases from industry fall by 40% or $22 billion in constant prices.

Myth: In recent years many additional billions of dollars have been poured into weapons systems and facilities.

Reality:

- Over the past nine years, funds for procurement, research and development and military construction have increased by only 4% or $900 million. In terms of real buying power, these funds have decreased by 24% in the same period.

Myth: The Defense budget dominates public spending.

Reality:

- In FY 1973 Defense will account for about 20% of public spending, about 21% of all public employment and just over 6% of GNP; the lowest shares in more than 20 years.

Myth: The country is operating under a wartime economy; or, Defense spending is the root of all economic ills.

Reality: We had a war economy in 1945 and in 1953 (Korea), but NOT in recent times.

- In constant 1958 prices, Defense spending in 1945 was $153 billion; social and economic spending was $34 billion.

- Again in constant 1958 prices, social and economic spending will be $145 billion in 1973; Defense $44 billion.

- In 1945, total public employment was 19 million of which 78% went to Defense. In 1973, the total will be 16 million, with 79% to non-Defense purposes.

- Since 1961 the economy has created 16 million new jobs while Defense employment for all purposes has decreased.

- Those who say that Defense is dominant are pretending that non-Defense public spending does not involve real money or real people.

Myth: Defense is placing an inordinate drain on the Nation's Research and Development resources.

Reality:

- Defense related R&D is smaller (in real terms) in 1972 than in 1958 or any year since.

Myth: Defense spending is a dominant factor in the balance of payments (BOP) problem.

Reality: Defense did play a major role in the past, but not any longer.

- In the FY 1956-59 era, foreign expenditures by Defense were equivalent to 24.4% of merchandise imports.

- In FY 1972, Defense foreign expenditures have fallen to 9.9% of merchandise imports. The $3 billion Defense deficit makes up a relatively small part of the $28 billion total deficit.

Myth: Defense has contributed to the inflation and BOP problems, causing higher prices and lower productivity in the U.S. industry.

Reality:

- Inflation in the U.S. has been most severe since 1968, a period when Defense programs were being massively cut back.

- The aircraft industry -- 20 times more dependent on Defense than U.S. industry in general -- shows productivity increases nearly double the average and has the best balance of trade record in the U.S. economy.

- Inflation has been the most severe in those industry sectors where the defense input is the smallest, and conversely. For example: the greatest inflation by far (76.4%, 1964-71) is in construction, where defense accounts for less than 1% of the business. Five sectors have had above-average inflation, and defense accounts for less than 1% of the business in four of them, and 2.7% in the fifth.

- According to Department of Commerce figures, inflation on state and local government purchases has been much greater than on defense purchases.

Myth: Defense takes 60% or more of the tax dollar.

Reality: In FY 1973 Defense accounts for 31% of Federal spending and about 20% of all public spending, the lowest since before Pearl Harbor. The myth is rationalized by these distortions:

- Adding to the cost of National Defense the costs of the Federal debt, veterans programs, international programs and space programs.

- Not counting huge amounts of Federal taxing and spending which, at $72.5 billion in FY '73, nearly equal the entire National Defense budget.

- Ignoring state and local spending altogether which in FY '73 amount to $182.5 billion (2.3 times National Defense spending) and which comes from the same taxpayers, and a large part of which is financed through the Federal budget.

Myth: The peace dividend has been stolen.

Reality: Since the peak of the war in 1968, there have been massive Defense cuts which should have resulted in massive spending cuts of about $24 billion. But there is only a $1.5 billion drop in the budget. Why?

- Pay increases to military and civil service personnel account for $16.3 billion.

- General inflation on purchased goods and services eats up $6.2 billion.

- These add up to $22.5 billion: pay and price increases have offset the massive force reductions. Without these increases, the FY '73 budget would be $54 billion.

Myth: Defense squanders billions in weapons system "cost overruns."

Reality: Alleged "cost overruns" of tens of billions are arrived at by comparing current estimates of all-time (concept to completion of production) costs to very early "planning estimates." Only about half the money referred to in "cost overrun" figures has ever been requested of Congress, much less appropriated or spent. Costs of Defense programs increase just as costs in every aspect of our society increase for many valid reasons not associated with waste and mismanagement.

Myth: Defense contractors make exorbitant profits.

Reality: The General Accounting Office (GAO) found in a recent study that rates of return for contractors on Defense work were 4.3% of sales before taxes and 2.3% of sales after taxes -- significantly lower than on comparable commercial work.

DEPARTMENT OF DEFENSE

HUMAN GOALS

Our Nation was founded on the principle that the Individual has infinite dignity and worth. The Department of Defense, which exists to keep the Nation secure and at peace, must always be guided by this principle. In all that we do, we must show respect for the Serviceman, the Servicewoman, and the Civilian Employee, recognizing their individual needs, aspirations, and capabilities.

The defense of the Nation requires a well-trained force, Military and Civilian, Regular and Reserve. To provide such a force we must increase the attractiveness of a career in Defense so that the Service member and the Civilian employee will feel the highest pride in themselves and their work, in the uniform and the military profession.

THE ATTAINMENT OF THESE GOALS REQUIRES THAT WE STRIVE—

To attract to the Defense service people with ability, dedication, and capacity for growth;

To provide opportunity for everyone, Military and Civilian, to rise to as high a level of responsibility as possible, dependent only on individual talent and diligence;

To make Military and Civilian service in the Department of Defense a model of equal opportunity for all regardless of race, sex, creed, or national origin, and to hold those who do business with the Department of Defense to full compliance with the policy of equal employment opportunity;

To help each Service member in leaving the Service to readjust to civilian life, and

To contribute to the improvement of our Society, including its disadvantaged members, by greater utilization of our human and physical resources while maintaining full effectiveness in the performance of our primary mission.

SECRETARY OF DEFENSE

SECRETARY OF THE AIR FORCE

DEPUTY SECRETARY OF DEFENSE

CHIEF OF STAFF, U.S. ARMY

CHAIRMAN, JOINT CHIEFS OF STAFF

CHIEF OF NAVAL OPERATIONS

SECRETARY OF THE ARMY

CHIEF OF STAFF, U.S. AIR FORCE

SECRETARY OF THE NAVY

COMMANDANT, U.S. MARINE CORPS